Autonomy Corporation plc

Consolidated Financial Statements
for the year ended 31 December 2008
together with Directors' and Auditors' Reports
Registered Number: 3175909

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Sales revenue growth of 47%

Operating profit growth of 110%

Net profit growth of 111%

Fully-diluted EPS growth of 99%

R&D investment up 26%

Acknowledged as having won the Enterprise Search Wars*

Rejoined the FTSE 100

Cash generated from operations of $178.8m (2007: $83.1m)

Cash balance of $199.2 million at year end and no net debt

Fully-diluted EPS of $0.61

(2007:$0.30)

* Source: Computer Business Review, December 2008

Autonomy's Five Year Record

	2008	2007	2006	2005	2004
$'000 (except EPS)	*IFRS*	*IFRS*	*IFRS*	*IFRS*	*IFRS*
Revenue	**503,229**	343,409	250,682	96,032	64,765
R&D Expenditure	**78,410**	62,341	51,680	21,923	14,256
Profit from Operations	**186,493**	88,649	55,540	8,831	4,425
Profit Before Tax	**185,707**	91,447	56,319	12,628	7,683
Net Profit	**131,749**	62,465	39,085	8,950	6,106
Cash from Operations	**178,783**	83,108	46.948	17,721	7,006
Earnings per Share	**0.61**	0.30	0.21	0.07	0.05

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Dear Autonomy Investor,

At the close of 2008 Autonomy stands amongst the proud few as having excelled in an otherwise tumultuous year for the global economy and the software industry. It is in such times that companies are proved, and I take great pleasure in presenting to you these results from an exceptional year, in which Autonomy has not only stood the test, but risen above the tumult to outperform expectations.

During the year the issues surrounding the collapse of global credit markets, counterparty litigation and the incipient regulatory response have driven unprecedented demand for Autonomy's Meaning Based Computing technology. The year saw an extraordinary number of multi-million dollar contracts signed, setting a new record with a single deal worth tens of millions. Consequently, top line revenues, bottom line profits and EPS are all up significantly, ahead of analyst consensus expectations, with strong organic growth.

Throughout 2008 we consolidated our industry leadership position, and were acknowledged by independent observers as having "won the enterprise search wars" (Source: Computer Business Review, December 2008). We also launched the industry's first information governance platform for all types of information including audio and video, and witnessed Autonomy's technology take centre stage in ancillary markets such as content leak prevention, where every major player now builds its products on Autonomy, but in which Autonomy itself does not compete. All of this culminated in a tremendously proud moment as we rejoined the FTSE100.

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 2008 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 2008, as well as comment on some of the trends we saw in our business during the year.

Financial Results: In 2008 revenues, all key financial metrics soared from our previous records in 2007, driven by strong organic growth. 2008 financial achievements included:

- Record revenues, up 47% from 2007 including strong organic growth
- Record profit from operations (adjusted) at $207.5 million, up 91% from 2007
- Record profit from operations (IFRS) up 110% from 2007
- Record profit before tax (adjusted) at $208.9 million, up 84% from 2007
- Record profit before tax (IFRS), up 103% from 2007
- Record fully diluted EPS (adjusted) at $0.68, up 81% from 2007
- Net profit (IFRS) up 111% from 2007
- Gross margins (adjusted) at 91%
- R&D investment up 26% year-on-year
- Positive cash flow generated by operations of $178.8 million (2007: $83.1 million), up 115%
- Cash balance of $199.2 million at year end and no net debt

* For adjusted results details and reconciliations see page 26.

Accolades: Throughout 2008 Autonomy was recognized by industry analysts as the unmatched market leader. Accolades included:

- Heralded as at the cutting edge of a new multi-trillion dollar industry sector by Gartner's head of worldwide research
- Winner of the LSE's 2008 techMARK company of the year award
- Ranked as the fastest growing full-service EDD provider among the AM LAW 200
- Awarded "Records Management Product of the Year" by Document Manager

Operations: We saw growth across the globe during the year, in virtually every geographic and vertical market we serve. We continue to win marquee customers in emerging economies across Asia, Eastern Europe and Latin America. We also closed a record number of large transactions in 2008 and the largest deals in the company's history.

Our strong R&D investment, including an increase in R&D spend in 2008 of 26% from 2007, is seeing clear returns. 2008 saw significant the continued development of industry-leading new technologies, with announcements about new technologies during the year including:

- Autonomy ControlPoint, which brings comprehensive information governance capabilities to Microsoft SharePoint
- The inauguration of the world's largest managed data archive
- The next generation of our Investigator and Early Case Assessment technology
- A new Situational Awareness Web Portal to revolutionise the security control centre
- Advanced Legal Hold with automated identification, notification, preservation and collection

After having cemented Autonomy's position as the industry leader during the year, including as the de facto standard in OEM market, Autonomy was recognized when it was recognized by Computer Business Review as having "won the enterprise search wars" (Source: Computer Business Review, December 2008) and by ComputerWeekly as dominating the search space.

The results of our investment can also be seen in the continued success of our vertical divisions, including: Autonomy ZANTAZ, Autonomy's award-winning division specializing in compliance, litigation and risk technology; Autonomy Virage, a leading provider of security and surveillance software and rich media content management software; and Autonomy etalk, a leading provider of next-generation contact center technology. 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 for meaning-based technologies, which remained stable throughout 2008 at approximately $393,000.

2008 activity was clearly reflected in Autonomy's share price, up 9% during 2008, one of only a small handful of FTSE100 companies to show a gain in 2008, which followed a rise of 73% in 2007. Our two year performance versus the FTSE100 and FTSE250 is in the graph below:

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Acquisitions: I am pleased to report that our acquisition of ZANTAZ in July 2007 has delivered significant results, following a rapid and successful integration. The combination of Autonomy and ZANTAZ created the unmatched leader in the space. In January 2009 we announced an agreement to acquire Interwoven, Inc., a global leader in content management software. The combination of the two companies will redefine how global 2000 corporations, leading law firms and government regulators will discover, analyze and manage information and interactions.

Trends: 2008 was a transformational year for our markets. Global events converged with the fundamental change of the IT world to the usage of unstructured information. At the same time regulatory changes such as the U.S. Federal Rules of Civil Procedure resulted in a convergence of legal and operational information systems and the emergence of the drive towards "manage in place". The elevation of unstructured information issues to prime-time status also drives growth in our OEM business, where we remain the de facto standard.

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.

We are seeing continuing strength as the momentum of the revolution towards unstructured information gathers pace. We continue to monitor the market situation closely and the incoming evidence to date confirms our previous assumptions, allowing us to be conservatively optimistic for the remainder of 2009.

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
27 February 2009

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 2008 totalled $503.2 million, up 47% from $343.4 million in 2007. Sales were positively impacted in 2008 by organic growth, together with the full year impact of the ZANTAZ acquisition. 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 2008 totalled $45.0 million, up 15% from $39.1 million in 2007. The increase is driven by the increased revenues. Cost of revenues as a percentage of revenues decreased from 15% in 2007 to 13% in 2008. This decrease has been driven primarily by the successful implementation of a number of efficiencies within the ZANTAZ hosted business that have been realised as a result of the combination of the IDOL technology with existing ZANTAZ infrastructures.

Amortization of purchased intangibles arise in connection with acquisitions. Amortization of purchased intangibles in 2008 totalled $19.5 million, up 50% from $13.0 million in 2007. The increase is primarily attributable to the full year contribution in 2008 of amortization of purchased intangibles acquired in connection with the ZANTAZ and Meridio acquisitions.

Gross profit in 2008 totalled $438.7 million, up 51% from $291.3 million in 2007, commensurate with the increase in revenues but also affected by the cost trends discussed above. Gross margins increased as planned following the completion of the integration of ZANTAZ and the transition of the core ZANTAZ business to higher margin sales.

Research and development expenses in 2008 totalled $78.4 million, up 26% from $62.3 million in 2007. The increase in research and development expenses from 2007 to 2008 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 ZANTAZ acquisition.

Sales and marketing expenses totalled $135.2 million in 2008, up 29% from $104.4 million in 2007. The increase in sales and marketing expenses from 2007 to 2008 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 2008.

General and administrative expenses totalled $42.6 million in 2008, up 31% from $32.5 million in 2007. The increase in general and administrative expenses from 2007 to 2008 was due to an increase in average headcount due to a full year contribution from ZANTAZ and Meridio together with the legal, accounting and tax advice necessitated by the enlarged group.

Post-acquisition restructuring costs totalled $1.2 million in 2008, versus $1.8 million in 2007. Such costs were non-recurring costs associated with the acquisition of ZANTAZ and Meridio.

Gain (loss) on foreign exchange totalled $5.1 million gain in 2008, compared to a loss of $0.6 million in 2007. The charge arises as a result of movements in foreign currencies against the functional currency of the relevant operating company. This results in transactions being settled at different amounts to the foreign currency asset or liabilities carrying value.

Profit from operations totalled $186.5 million in 2008, up 110% from $88.6 million in 2007. The increase in profit from operations from 2007 to 2008 reflects an increase in revenues from 2007 to 2008 offset by cost increases discussed above. The operational gearing of the company is such that the increased revenues of 47% in 2008 resulted in an increase in profit from operations of 110% in 2008.

Impairment of investments during 2008 totalled $nil (2007: $1.0 million). In 2007 the company wrote off an investment in a privately held company.

Interest income totalled $3.4 million in 2008, down 52% from $6.9 million in 2007. Interest income in 2008 was impacted by higher cash balances throughout 2008 compared to 2007, but offset by interest rates which fell materially during the year in all territories.

Interest payable totalled $1.9 million in 2008, down 20% from $2.4 million in 2007, as a result of a combination of lower interest rates and continued scheduled capital repayments.

Profit before tax totalled $185.7 million in 2008, up 103% from $91.4 million in 2007. The increase in profit before tax reflects an increase in revenues from 2007 to 2008 offset by smaller increases in costs discussed above.

Income tax charges totalled $54.0 million in 2008, up 86% from $29.0 million in 2007. The group's effective tax rate fell from 31.7% in 2007 to 29.1% in 2008. The decrease is driven mainly by the lower tax rate of UK corporation tax of 28% which was introduced with effect from 1 April 2008.

Net profit totalled $131.7 million in 2008, up 111% from $62.5 million in 2007.

Basic and diluted earnings per share was at a record level of $0.61 and $0.61 per share respectively in 2008, an increase of 98% and 99% from $0.31 and $0.30 respectively in 2007.

Liquidity and Capital Resources
Cash and cash equivalents totalled $199.2 million at 31 December 2008, versus $92.6 million at 31 December 2007.

Cash generated by operations totalled $178.8 million in 2008, an increase of 115% from $83.1 million in 2007. The increase in cash generation from 2007 to 2008 was directly related to increased revenues, increased operating margins and strong cash collection during the year. Income tax payments increased from $0.6m in 2007 to $32.4m in 2008 due to the increased profits.

Net cash used in investing activities totalled $30.7 million in 2008, down from $398.6 million in 2007. The majority of expenditure in 2007 related to the acquisitions of ZANTAZ and Meridio, totalling $380.8 million. The remainder of the movement in 2007, and the primary use in 2008, related to purchases of property, plant and equipment, investments and expenditure on product research and development.

Net cash provided by financing activities totalled $4.8 million in 2008, down from $284.8 million in 2007. Net cash provided by financing activities in 2007 was primarily the result of two share placements, providing net proceeds of $283.6 million, together with the proceeds of employee share option exercises, offset by a net repayment of the company's bank loans. Net cash provided by financing activities in 2008 was generated by proceeds of employee share option exercises offset by repayments of the company's bank loan. The company did not repurchase any shares during 2008 or 2007.

At 31 December 2008 the company had remaining bank debt of $37.2 million, down from $47.9 million at 31 December 2007. The fall in the balance is due to scheduled quarterly repayments.

The company's commitment for 2008 under operating leases is $12.2 million (2007: $9.7 million), as discussed in note 24. 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 with AAA ratings, 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 decreased to $796.6 million at 31 December 2008 from $820.1 million at the end of 2007, primarily a result of exchange movements on sterling denominated goodwill.

Other intangible assets decreased to $98.7 million at 31 December 2008 from $114.0 million at the end of 2007, as a result of the amortisation charge of $24.3 million (2007: $15.3 million) offset by additions during the year and exchange movements.

Property, plant and equipment was at $27.4 million at 31 December 2008, compared to $28.8 million at the end of 2007. Additions during the year have been partially offset by the depreciation expensed.

Equity and other investments decreased by $12.6 million to $7.4 million. The decrease is mainly attributable to fall in the share price of blinkx Plc. The company retains a 10% interest in blinkx Plc which is measured at fair value each period end. No impairment has been required for any of the group's investments.

Deferred tax assets increased to $13.5 million at 31 December 2008, from $8.9 million at the end of 2007. The increase is driven by the ability of the group to recognise previously unrecognised tax and stock option losses. As the profitability and share price of the company continues to grow then this asset may increase further.

Trade and other receivables increased to $176.8 million at 31 December 2008, up from $131.5 million at the end of 2007. The increase is commensurate with the increased revenues of the group. Days' sales outstanding (DSOs) remained consistent at 84 days at 31 December 2008 (2007: 83 days). Other receivables increased to $35.6 million from $21.0 million.

Trade and other payables decreased to $31.9 million at 31 December 2008 from $41.0 million at the end of 2007. The balance at 31 December 2007 included certain acquisition related items which were one-off in nature.

Tax liabilities of $27.9 million at 31 December 2008 are up from $20.1 million from the end of 2007, driven by the increased profitability of the group.

Deferred tax liabilities of $2.5 million at 31 December 2008 arose during the year on the purchased intangible assets.

Deferred revenue increased to $99.2 million at 31 December 2008 from $97.9 million at the end of 2007. The increase is a combination of an increase in license business, offset by a reduction in professional services business which traditionally has greater deferred revenue and significant exchange rate fluctuations.

Key Events
During 2008 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 contributions from recent acquisitions.

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, 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 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 continuation 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 performance indicators in the current and prior years are summarized as follows::

	2008	2007	% Change
Revenue	$503.2m	$343.4m	47%
Gross margins (adjusted)*	91%	89%	3%
Operating margins (adjusted)*	41%	32%	30%
EPS (adjusted)* (see note 10)	$0.68	$0.38	81%
Cash balances	$199.2m	$92.6m	115%
Research and development expenditure	$78.4m	$62.3m	26%
Average Headcount	1,248	1,131	10%

* For adjusted results details and reconciliations see page 26.

The elimination of low margin businesses and continued operational efficiencies have contributed to the increase in 2008. Gross margin for the fourth quarter of 2008 was 92%.

The increase in operating margins and EPS 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.

Cash balances have increased significantly during the year. This is driven by the cash generated from operations of $178.8 million offset by tax payments, capital expenditure and repayment of debt.

The company continues to invest heavily in research and development, with an increase of 26% in 2008 from 2007.

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.

Board of Directors

Dr. Michael Lynch OBE FREng, Managing Director and Chief Executive Officer, 43, 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, blinkx Plc, Isabel Healthcare Limited and Featurespace 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, 44, has served as 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.

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Richard Gaunt, Board Director, 41, 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, 63, 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, 65, 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, 65, 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 is a director of FNSS, a joint venture between Nurol (a Turkish company) and British Aerospace. He is a consultant to Clarium Capital, a U.S. based hedge 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.

Executive Management

Dr. Peter Menell, D.Phil. Oxon, Chief Technology Officer, 40, joined Autonomy's Engineering and Technology Solutions unit in 1998 and has served as Chief Technology Officer since 2004. During that time he has overseen a number of significant advances in Autonomy technology, including key new patents filed, and been responsible for the successful deployment of Autonomy software at multi-divisional organizations across the globe. Prior to joining Autonomy, Dr. Menell conducted computational and neuro-physiology research. Dr. Menell holds a B.A. (Hons) and M.Sc. from York University and a D.Phil. from Magdalen College Oxford.

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Andrew M. Kanter, Chief Operating Officer and General Counsel, 39, joined Autonomy in August 2000 as VP, International Ops. and Legal Affairs, and has served as our COO since 2001. Prior to joining Autonomy, through 2000 Mr. Kanter was an associate attorney with Brobeck Hale and Dorr in London, engaged in international mergers and acquisitions and corporate finance. Through 1999, Mr. Kanter was an associate attorney at Brobeck, Phleger & Harrison in San Francisco, and prior to that was an associate attorney with Shearman & Sterling, San Francisco. Mr. Kanter was Clerk to Hon. Christine Miller of the U.S. Court of Federal Claims, Washington, DC. Mr. Kanter holds a J.D. from the University of Southern California and a B.A. from Johns Hopkins University, and also studied at Kansai University of Foreign Studies, Osaka, Japan.

Nicole Eagan, Chief Marketing Officer, 44, joined the Autonomy Group as Chief Marketing Officer in January 2006. Prior to working for Autonomy Ms Eagan served Verity as a Senior Vice President of Marketing and Chief Marketing Officer from June 2005. Before joining Verity, Ms. Eagan was Vice President, Global Marketing at Quest Software, an application, database and Windows management company from 2004 to 2005. Prior to Quest, Ms. Eagan was the Senior Vice President of Global Marketing at Peregrine from 2001 to 2004. Ms. Eagan also held senior marketing, strategy and business development positions at Extricity, a business process management company and Oracle Corporation. Ms. Eagan holds a B.S. from Montclair University, N.J..

Stouffer Egan, CEO Autonomy, Inc., 40, joined Autonomy in March 2001 as Director of Global Accounts. He has served as our Chief Executive Officer, Autonomy, Inc., since 2002. Prior to joining Autonomy, from February 2000 through to March 2001, Mr. Egan was Vice President of Corporate Development for LeadingSide Inc. From January 1995 through February 2000, Mr. Egan held various positions with Dataware Technologies, most recently as Vice President, Corporate Development. Mr. Egan holds a B.A. in Economics from Trinity College, CT.

Anthony Bettencourt, Corporate Strategy, 48, has more than 20 years of senior management experience in a variety of high-tech companies and, most recently, as an entrepreneur-in-residence at US Venture Partners. Previously, Anthony was the Chief Executive Officer of Verity, Inc., where he was responsible for growing the business from $15 million in annual revenues to more than $140 million from 1995 to 2005. A veteran of the enterprise search market, Anthony led the team that set the strategic direction and execution characteristics of Verity, resulting in Verity's acquisition by Autonomy at the end of 2005. In 2005, he was awarded the prestigious Ernst & Young Entrepreneur of the Year award for software and technology in the Silicon Valley. Anthony holds a B.A. in English from Santa Clara University.

The directors present their report and group audited financial statements for the year ended 31 December 2008. The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and Financial Review on pages 2 to 7. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 5 to 7. In addition note 27 to the financial statements includes the group's objectives, policies and processes for managing its capital and risk management along with details of exposures to credit risk and liquidity risk.

Principal Activity

The principal activity of the group during 2008 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 other territories.

Review of Developments and 2008 Results

Results of the company are set out beginning on page 26. Revenue for the year ended 31 December 2008 was $503.2 million, an increase of 47% from $343.4 million in 2007. Net profit (adjusted) was $148.0 million for 2008, compared with net profit (adjusted) of $77.2 million in 2007. The company solidified its industry-leading position during 2008. The Financial Review beginning on page 5 provides further comment on the developments and the results for the year, as well as risks and uncertainties.

Enhanced Business Review

The information required in the enhanced business review is set out in this report, 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 group remains firmly committed to research and development to maintain its position as a market leader. During the year the group expensed $78.4 million related to research and development (2007: $62.3 million), an increase of 26%. In addition, the group capitalised $11.2 million (2007: $6.9 million) of qualifying research and development expenditure as required in accordance with IAS 38.

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, 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 (2007 - £Nil).

Authority to Purchase Own Shares

At the last Annual General Meeting, shareholders authorized market purchases by the company of up to 31,799,701 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 2008 the company did not conduct any share repurchases. In total, the company has purchased for cancellation 20,997,824 shares, representing approximately 9.7% of the company's total issued share capital at 31 December 2008, at an average price of £1.65 per share, for aggregate consideration of £34.5 million. As of 31 December 2008, the company had remaining authorization to repurchase 31,799,701 of the company's ordinary shares. Any repurchase program during 2009 will depend on market conditions.

Financial Instruments

The directors' objectives in relation to the use of financial instruments 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 with AAA-rated institutions. 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. The company is marginally exposed to interest rate risk through the company's bank loan.

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. The company is also presented with opportunities from time to time to acquire complementary technology or resources. Research and development activities are discussed above. The company operates through offices around the globe, all of which are engaged in the primary business of the company.

Directors and Their Interests

A list of the directors who served during the year, their interests in the ordinary share capital of the company, details of share options and details of service contracts are set forth in the Remuneration Committee report beginning on page 16. Biographies for all Directors are on page 8. 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. Messrs. Gaunt and Perle were re-elected as directors at the company's Annual General Meeting in 2006 and are standing for re-election at the next Annual General Meeting. In addition Mr. McMonigall is standing for re-election in accordance with 2006 FRC Combined Code. Each individual's performance continues to be exemplary and they demonstrate commitment to their roles.

Substantial Shareholdings
As 27 February 2009, 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	%
FMR Corp.	23,753,244	9.97
Standard Life Investments Limited	11,491,661	4.83
Fidelity International Limited	11,381,329	4.78
Schroders plc	9,912,060	4.16
OppenheimerFunds, Inc.	8,594,364	3.61
Legal & General Group Plc	8,517,490	3.58
TIAA-CREF	6,700,772	2.81

(1) Based on 238,139,529 ordinary shares outstanding as of 27 February 2009.

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 2008 calculated in accordance with Schedule 7 Companies Act 1985 for the company was 22 days (2007 - 53 days) and for the principal U.K. subsidiary was 85 days (2007 - 85 days).

Employees
Matters relating to the company's employees, including disabled employees, are discussed on page 21.

Corporate, Social and Environmental Matters
Matters relating to corporate, social and environmental matters are discussed on page 21.

Charitable and Political Contributions
The company's charitable policies are discussed on page 22. The group made $152,000 in charitable donations during 2008 to a variety of charities including the Prince's Trust, the University of Calgary and Alderburgh Music Festival (2007 - $155,000). The group did not make any political contributions during 2008 (2007 - $Nil).

Going Concern
The group has considerable financial resources together with contracts with a number of customers across different geographic areas and industries. As a consequence, the directors believe that the group is well placed to manage its business risks successfully. After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Capital Structure
The structure of the company's capital consists solely of ordinary shares, nominal value 1/3p per share. There are no restrictions imposed by the company on the transfer of securities in the company or limitations on the holding of securities or requirements to obtain approval for a transfer of securities. The Substantial Shareholdings table above sets forth such details as are known to the company of the identity of persons holding a significant direct or indirect interest, and the holdings size. The company has no information with regards to the holdings to believe such holdings are for any reason other than ordinary financial investment purposes. The company has an Employee Benefit Trust which holds approximately 448,000 ordinary shares of the company and approximately 496,800 ordinary shares of blinkx Plc. All rights with respect to such shares are exercised by the independent trustee of the trust. There are no restrictions on voting rights on the company's ordinary shares, including any limitations on voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or arrangements by which with the company's co-operation financial rights carried by securities are held by a person other than the holder of the securities. The company is not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or voting rights. The company does not have any rules regarding the appointment and replacement of directors and amendment of the Articles of Association other than those set forth in the Articles of Association. The powers of the directors are as set forth in the company's Articles of Association and as permitted by shareholders pursuant to the company's Annual General Meeting. The company is not party to any material agreements that take effect, alter or terminate upon a change of control following a takeover bid, or any agreements between the company and its directors or employees providing for compensation or loss of office or employment that occur because of a takeover bid.

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 remains 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. No qualifying third party indemnity provisions or any qualifying pension scheme indemnity provisions are in force as of the date of this report or were in force during the year ended 31 December 2008.

Annual General Meeting

The Annual General Meeting will be held at the company's offices in Cambridge, UK, on 27 March 2009, at 4:30 p.m.. The company will convey the results of proxy votes cast at the meeting, and the results 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 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.

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 reasonable 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
27 February 2009

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 and the company's compliance with the 2006 FRC Combined Code for Corporate Governance (the "Code") appended to the Listing Rules of the UK Listing Authority.

Compliance with the 2006 FRC Combined Code

Throughout the year ended 31 December 2008, and through to the date of approval of the financial statements, the Board considers that the company has complied with Section 1 of the Code. The company has applied the Principles of Good Governance set out in Section 1 of the 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 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 served as an executive director through the end of 2005. Mr. McMonigall's service to the Board has been extraordinary since the company's founding and his continued service is of high benefit notwithstanding his tenure of over ten years.

The directors' biographies appear on page 8. 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 in recent years has not sat with a permanent chairman, but rather the chair rotated amongst the senior non-executive members present at the meeting, 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. A broad range of candidates were considered during 2008. A candidate for chairman was to be passed to the committee for approval during year, but fell ill prior to his nomination and his candidacy was withdrawn. Additional candidates are being considered as of the date of this report, with an appointment announcement expected imminently.

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 page 23. 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 2006 FRC 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 and Committee Meetings

The Board meets at least once a quarter. 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. Board and committee activities in 2008 were as follows:

	Meetings	Written Consent	Attendance
Board of Directors	5	1	Note 1
Audit Committee	4	—	Note 2
Remuneration Committee	—	1	—
Nominations Committee	1	—	—

(1) All directors attended 100% of meetings.
(2) All directors attended 100% of meetings other than Mr. Perle who missed one meeting for personal reasons.

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 retire by rotation. Directors who are appointed by the Board retire at the next annual general meeting so that they may be re-elected by 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 Messrs. McMonigall, Ariko and Perle. Each of Messrs. McMonigall and Ariko have significant financial expertise, and each have served as the chair at times during 2008. 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 each quarter with the external auditors without any executive directors present.

- Remuneration Committee. A description of the composition, responsibility and operation of the remuneration committee is set out in the remuneration report beginning on page 16.

- Nominations Committee. The committee currently consists of Messrs. Ariko and Perle, with Mr. Perle in the chair. 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.

The Company Secretary is secretary to all committees. No one other than committee chairmen and members are entitled to be present at a meeting of the nomination, audit or remuneration committees, but others may attend at the invitation of the committee. 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) to understand shareholders views. The Board also uses the Annual General Meeting to communicate with all shareholders and welcomes their participation. Directors are available to meet with shareholders at appropriate times.

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 2008 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 revised 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 2008 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 2008, the Board did not consider it necessary for the company to have its own internal audit function although a senior manager is responsible for internal reviews. No material breaches of internal controls were identified during 2008.

Conflicts

Throughout 2008 the company has complied with procedures in place for ensuring that the board's powers to authorize conflict situations have been operated effectively. During 2008 no conflicts arose which would require the board to exercise authority or discretion in relation to such conflicts.

Key Risks

Matters relating to key risks are discussed on page 7.

By order of the Board,

Andrew M. Kanter
Company Secretary

27 February 2009

The directors present their report on directors' remuneration for the year ended 31 December 2008.

Compliance

The constitution and operation of the Remuneration Committee is in compliance with the principles of Section 1 of the Code.

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 Code, the company's policy for directors' remuneration for 2008 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. Pensions are based on base salary only.

- 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 6 or 12 months with the remainder vesting 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 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 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. 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.

  During 2008 conditions for exercise of performance options were approved as follows: 30% of the grant will vest for exercise at the end of three years if the group's EPS growth exceeds the increase in the RPI over that period by 15%, and 100% of the grant will vest for exercise at the end of three years if the group's EPS growth exceeds the increase in the RPI over that period by 27%, with a straight-line increase between the two targets. These targets are equal to the most stretching targets used by any peer company, and were deemed appropriate given the company's growth profile and targets.

  The Board sets reasonable individual grant limits. As a result, at 31 December 2008, the Board collectively held options over 0.32% of outstanding equity, and options granted to the Board during 2008 totalled 0.09%, of the company's outstanding shares at 31 December 2008. The total number of options granted to Board members totalled less than 10% of all share options outstanding at 31 December 2008.

  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 2008.

Advice

The committee has access to professional advice from outside advisors should it require assistance. During 2008 the directors relied on information contained in generally available reports 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.

Considerations

The committee is able to consider corporate performance on environmental, social and governance issues when setting remuneration of executive directors, and to date has had no reason to believe that the incentive structure for senior management raises risks related to such matters by inadvertently motivating irresponsible behaviour.

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 12 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 as at today's date are follows:

Executive Directors Contracts	Date	Annual Salary	Bonus	Mutual Notice Period
Dr Michael Lynch, Chief Executive Officer	9 July 1998	£300,000	see below	6 months
Sushovan Hussain, Chief Financial Officer	27 June 2001	£270,000	see below	12 months

In 2008 executive directors were eligible for bonuses of 50% of base salary for achieving (i) revenue growth of at least 33% and (ii) adjusted earnings per share growth of at least 32%, with eligibility for an additional 25% of base salary for revenue growth of more than 38% and an additional 25% of base salary for adjusted earnings per share growth of more than 48%. 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 and analyst consensus forecasts. For 2008 each of the upper-end targets were 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 and Perle are each entitled to an annual fee of $70,000, Mr. McMonigall is entitled to an annual fee of £35,000. 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 FTSE100 and FTSE250 Indexes. These indexes represent broad equity market indexes in which the company, and similar companies, are constituent members.

Graphic Removed For Companies House

AUDITED REMUNERATION INFORMATION

Directors' Remuneration

The total amounts for directors' remuneration were as follows:

	2008	2007
	£	£
Emoluments	1,282,581	847,411
Gains on exercise of share options	1,811,947	1,729,505
Money purchase pension contributions	16,580	14,250
	3,111,108	2,591,166

The following table sets forth the elements of each director's remuneration package for the year ended 31 December 2008. Directors do not have pension, retirement or similar entitlements other than contributions to a money purchase pension scheme.

	Salary	Benefits In Kind(1)	Bonuses	Total 2008	Total 2007
	£	£	£	£	£
Executive Directors					
Dr. Michael R. Lynch	288,194	21,688	300,000	609,882	395,278
Sushovan Hussain	261,786	16,743	270,000	548,529	354,145
Non-executive Directors					
Richard G. Gaunt	18,000	332	—	18,332	18,000
Barry M. Ariko (2)	35,419	—	—	35,419	24,994
John P. McMonigall	35,000	—	—	35,000	30,000
Richard N. Perle(2)	35,419	—	—	35,419	24,994
	673,818	38,763	570,000	1,282,581	847,411

(1) Amounts shown reflect the taxable benefit of company cars and private health insurance.
(2) Messrs. Ariko and Perle's remuneration of $70,000 (from 1 April 2008) has been translated into sterling.

2008 salaries for the CEO and CFO were approved by the Board in early 2008 based on performance during 2007, which included record profits up 60% from the prior year, and the fact that executive director compensation was amongst the lowest of similarly sized companies despite extraordinary performance. The remainder of the increase in remuneration was the result of significant over-performance against performance targets. CEO and CFO salaries in 2008 remained approximately 50% below the median base salaries of similarly sized companies, despite the company's record performance significantly outpacing the market.

In 2008 each of Dr Lynch and Mr Hussains' base salary and total remuneration remained significantly below the salaries and total remuneration of officers of similarly sized companies, according to salary surveys by Deloitte.

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.

In connection with his services as a non-executive director of the BBC and blinkx Plc, during the year ended 31 December 2008 Dr. Lynch received total remuneration of £35,000 and £35,000 (2007: £35,000 and £22,555) from the BBC and blinkx, respectively. Dr Lynch performs these services independently of his duties to the company and thus is entitled to receive such compensation.

Directors and their Interests

The directors who served during 2008, and their beneficial interests in company shares at the start and end of the year, were as follows:

	Ordinary shares of 1/3p each as of 31 December	
	2008	2007
Executive		
Dr. Michael R. Lynch	20,019,846(1)	21,619,846
Sushovan Hussain	5,945	5,945
Non-executive Directors		
Richard G. Gaunt	2,672,601	2,775,101
Barry M. Ariko	—	—
John P. McMonigall	—	—
Richard N. Perle	—	—

(1) Includes 610,500 ordinary shares which are deemed reportable.

At year end Dr. Lynch had a non-beneficial interest in shares, as noted above. No other director had any non-beneficial interests in the shares of the company at the end of the year. 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.

Long-Term Incentive Plans

The group does not maintain any long term incentive plans.

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 principles underlying option grants are set forth on page 16.

Sushovan Hussain

At 1 Jan 2008	Granted	Exercised	At 31 Dec 2008	Exercise Price	Market Price at Exercise	Vesting Schedule[1]	First Exercise[2]	Expiry Date
10,000	—	(10,000)	—	£2.50	£10.18	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
75,000	—	(75,000)	—	£1.93	£10.45	3 year, 6 mon. cliff	21/05/04	20/11/10
25,000	—	(25,000)	—	£1.97	£10.18	3 year, 6 mon. cliff	10/11/05	09/05/11
100,000	—	(100,000)	—	£1.49	£10.45	3 year, 6 mon. cliff	17/06/05	16/12/11
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
12,000	—	—	12,000	£6.46	—	3 year, 6 mon. cliff	29/09/07	28/03/14
38,000	—	—	38,000	£8.19	—	3 year, 6 mon. cliff	01/02/08	31/07/14
45,000	—	—	45,000	£8.61	—	3 year, 6 mon. cliff	19/06/08	18/12/14
4,000[3]	—	—	4,000	£Nil	—	3 year, 6 mon. cliff	19/06/08	18/12/14
—	35,000	—	35,000	£8.77	—	3 year, 6 mon. cliff	07/09/08	06/03/15
—	35,000	—	35,000	£8.75	—	3 year, 6 mon. cliff	24/12/08	23/06/15
—	35,000	—	35,000	£10.30	—	3 year, 6 mon. cliff	08/02/09	07/08/15
489,000	105,000	(210,000)	384,000					

Michael R. Lynch

At 1 Jan 2008	Granted	Exercised	At 31 Dec 2008	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
12,000	—	—	12,000	£6.46	—	3 year, 6 mon. cliff	29/09/07	28/03/14
38,000	—	—	38,000	£8.19	—	3 year, 6 mon. cliff	01/02/08	31/07/14
45,000	—	—	45,000	£8.61	—	3 year, 6 mon. cliff	19/06/08	18/12/14
4,000[3]	—	—	4,000	£Nil	—	3 year, 6 mon. cliff	19/06/08	18/12/14
—	35,000	—	35,000	£8.77	—	3 year, 6 mon. cliff	07/09/08	06/03/15
—	35,000	—	35,000	£8.75	—	3 year, 6 mon. cliff	24/12/08	23/06/15
—	25,000	—	25,000	£10.30	—	3 year, 6 mon. cliff	08/02/09	07/08/15
204,000	95,000	—	299,000					

(1) Vesting schedule is either subject to performance vesting, or 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.
(3) Granted as a bonus following achievement of pre-determined acquisition integration targets.

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 31 December 2008 (the last trading day of the year) was £9.51 per ordinary share, and the range during the year ended 31 December 2008 was from £7.30 to £11.78.

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 (only) 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 2008 on the same terms available to all U.K. employees, and matching contributions of £8,726 and £7,854 (2007: £7,500 and £6,750 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
27 February 2009

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 it operates. The company is accountable to its shareholders but also endeavours to consider the interests of all of its stakeholders, including its employees, customers and suppliers, as well as 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 its operations as part of its regular risk assessment procedures, with such matters regularly considered by the executive directors.

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. This year, at Mr Hussain's recommendation management renewed the company's ethical policy, which sets forth the principles of proper conduct with regard to these matters.

The Board is committed to monitoring the company's corporate social responsibility policies in key areas. Management monitors the company's day-to-day activities in order to assess risks in these areas and identify actions that may be taken to address those risks. At present, the Board does not consider it appropriate to link the management of these risks to remuneration incentives, given the difficulties in measuring the changes to those risks objectively. 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 proposition arising from these matters, although it considers the potential to deliver greater 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 approximately 1,200 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, including disabled 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, and continued development of the company is made with the maximum involvement and input from employees practicable.

Employees with Disabilities

The company's policy is to give full and fair consideration to suitable applications from people with disabilities for employment. If existing employees become disabled they will continue to be employed, wherever practicable, in the same job or, if this is not practicable, every effort will be made to find suitable alternative employment and to provide appropriate training.

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 2008. 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, Pleasanton, Munich 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	
	2008	2007
Gas	0.53	0.67
Landfill	0.94	0.66
Energy use	4.40	5.04
Supplied water (m3)	10.44	13.75

Ethical Business Practices

Autonomy is a software development and sales company based in the UK with overseas sales and development operations. Autonomy does not have manufacturing operations. All employees are expected to behave ethically when working for the company and this is reflected in our policies which are detailed in the staff handbook.

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. Last year, under these schemes donations and sponsorships totalled over $150,000.

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
27 February 2009

Statement of Directors' Responsibilities

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.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation taken as a whole; and

2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board,

Dr. Michael R. Lynch
Chief Executive Officer and Co-Founder
27 February 2009

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

Independent auditors' report to the members of Autonomy Corporation plc

We have audited the consolidated and parent company financial statements (the "financial statements") of Autonomy Corporation plc for the year ended 31 December 2008, which comprise the Consolidated Income Statement, the Consolidated 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 29 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 2006 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 2008 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 2008;
- 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 2008 and of its profit for the year then ended.

Deloitte LLP.

Deloitte LLP
Chartered Accountants and Registered Auditors
Cambridge, England
27 February 2009

Consolidated Income Statement for the year ended 31 December 2008

	Note	2008 $'000	2007 $'000
Continuing operations			
Revenue	3,4	503,229	343,409
Cost of revenues (excl. amortisation)		(45,038)	(39,107)
Amortization of purchased intangibles		(19,489)	(12,955)
Cost of revenues		(64,527)	(52,062)
Gross profit		438,702	291,347
Research and development		(78,410)	(62,341)
Sales and marketing		(135,159)	(104,437)
General and administrative		(42,624)	(32,536)
Other costs			
Post-acquisition restructuring costs	5	(1,157)	(1,757)
Impairment of investments		—	(1,026)
Gain (loss) on foreign exchange		5,141	(601)
Total operating costs		(252,209)	(202,698)
Profit from operations	5	186,493	88,649
Share of loss of associate	14	(2,196)	(1,673)
Interest receivable	8	3,353	6,914
Interest payable on bank loan		(1,943)	(2,443)
Profit before tax		185,707	91,447
Tax	9	(53,958)	(28,982)
Profit for the year		131,749	62,465
Earnings per share			
Basic	10	0.61	0.31
Diluted	10	0.61	0.30

Reconciliation of Non-IFRS Financial Measures

	2008 $'000	2007 $'000
Gross profit	438,702	291,347
Amortisation of purchased intangibles	19,489	12,955
Gross profit (adjusted)*	458,191	304,302
Profit before tax	185,707	91,447
(Gain) loss on foreign exchange	(5,141)	601
Amortization of purchased intangibles	19,489	12,955
Impairment of investments	—	1,026
Share of loss of associate	2,196	1,673
Share-based compensation	5,484	3,786
Post acquisition restructuring costs	1,157	1,757
Profit before tax (adjusted)*	208,892	113,245
Provision for tax	(60,891)	(36,008)
Net profit (adjusted)*	148,001	77,237
Profit from operations	186,493	88,649
(Gain) loss on foreign exchange	(5,141)	601
Amortization of purchased intangibles	19,489	12,955
Share-based compensation	5,484	3,786
Post-acquisition restructuring costs	1,157	1,757
Impairment of investments	—	1,026
Profit from operations (adjusted)*	207,482	108,774

* Non-IFRS financial measures are used to calculate "adjusted" results discussed throughout the Annual Report.

Consolidated Balance Sheet at 31 December 2008

	Note	2008 $'000	2007 $'000
Non-current assets			
Goodwill	11	796,632	820,147
Other intangible assets	12	98,694	113,956
Property, plant and equipment	13	27,350	28,788
Equity and other investments	14	7,441	20,010
Deferred tax asset	16	13,467	8,862
Total non-current assets		943,584	991,763
Current assets			
Trade and other receivables	15	176,806	131,487
Inventories		715	583
Cash and cash equivalents		199,218	92,571
Total current assets		376,739	224,641
Total assets		1,320,323	1,216,404
Current liabilities			
Trade and other payables	17	(31,945)	(40,969)
Bank loan	18	(10,637)	(10,638)
Tax liabilities		(27,905)	(20,118)
Deferred revenue		(89,794)	(77,491)
Provisions	19	(426)	(1,099)
		(160,707)	(150,315)
Net current assets		216,032	74,326
Non-current liabilities			
Bank loan	18	(26,594)	(37,231)
Deferred tax liabilities	20	(2,537)	—
Deferred revenue		(9,414)	(20,389)
Other payables		(1,171)	(9,899)
Provisions	19	—	(257)
		(39,716)	(67,776)
Total liabilities		(200,423)	(218,091)
Net assets		1,119,900	998,313
Shareholders' equity			
Share capital	21	1,214	1,196
Share premium account		798,279	780,888
Capital redemption reserve		135	135
Own shares	22	(905)	(981)
Merger reserve		27,589	27,589
Stock compensation reserve		14,846	9,438
Revaluation reserve		2,987	10,163
Translation reserve		(18,261)	23,801
Retained earnings		294,016	146,084
Total equity		1,119,900	998,313

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2009. 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 2008

	Share capital (number)	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Own shares $'000	Merger reserve $'000	Sub-total $'000
At 1 January 2007	187,836,204	1,027	474,645	135	(1,017)	—	474,790
Retained profit	—	—	—	—	—	—	—
Stock compensation charge	—	—	—	—	—	—	—
Share options exercised	4,192,959	29	22,618	—	—	—	22,647
Share placings	21,037,157	140	283,625	—	—	27,589	311,354
EBT options exercised	—	—	—	—	36	—	36
Deferred tax on share options	—	—	—	—	—	—	—
Translation of overseas ops	—	—	—	—	—	—	—
Revaluation of equity investment	—	—	—	—	—	—	—
At 31 December 2007	213,066,320	1,196	780,888	135	(981)	27,589	808,827
Retained profit	—	—	—	—	—	—	—
Stock compensation charge	—	—	—	—	—	—	—
Share options exercised	2,750,877	18	17,391	—	—	—	17,409
EBT options exercised	—	—	—	—	76	—	76
Deferred tax on share options	—	—	—	—	—	—	—
Translation of overseas ops	—	—	—	—	—	—	—
Revaluation of equity investment	—	—	—	—	—	—	—
At 31 December 2008	215,817,197	1,214	798,279	135	(905)	27,589	826,312

	Sub-total $'000	Stock compensation reserve $'000	Revaluation reserve $'000	Translation reserve $'000	Retaining earnings $'000	Total $'000
At 1 January 2007	474,790	5,688	—	19,956	71,188	571,622
Retained profit	—	—	—	—	62,465	62,465
Stock compensation charge	—	3,786	—	—	—	3,786
Share options exercised	22,647	—	—	—	—	22,647
Share placing	311,354	—	—	—	—	311,354
EBT options exercised	36	(36)	—	—	—	—
Deferred tax on share options	—	—	—	—	12,431	12,431
Translation of overseas ops	—	—	—	3,845	—	3,845
Revaluation of equity investment	—	—	10,163	—	—	10,163
At 31 December 2007	808,827	9,438	10,163	23,801	146,084	998,313
Retained profit	—	—	—	—	131,749	131,749
Stock compensation charge	—	5,484	—	—	—	5,484
Share options exercised	17,409	—	—	—	—	17,409
EBT options exercised	76	(76)	—	—	—	—
Deferred tax on share options	—	—	—	—	16,183	16,183
Translation of overseas ops	—	—	—	(42,062)	—	(42,062)
Revaluation of equity investment	—	—	(7,176)	—	—	(7,176)
At 31 December 2008	826,312	14,846	2,987	(18,261)	294,016	1,119,900

Consolidated Cash Flow Statement for the year ended 31 December 2008

	Note	2008 $'000	2007 $'000
Net cash from operating activities	23	146,336	82,459
Investing activities			
Interest received		3,321	6,914
Proceeds on disposal of property, plant and equipment		—	366
Purchases of property, plant and equipment		(14,285)	(11,329)
Investment in joint venture, associates and equity investments		(2,327)	(6,820)
Expenditure on product development		(11,159)	(6,942)
Acquisition of subsidiaries (net of cash acquired)		(6,226)	(380,760)
Net cash used in investing activities		(30,676)	(398,571)
Financing activities			
Proceeds from issuance of shares		17,409	307,133
Interest on bank loan		(1,943)	(2,442)
Repayment of bank loan		(10,700)	(48,683)
Drawdown of bank loan		—	28,762
Net cash from financing activities		4,766	284,770
Net increase (decrease) in cash and cash equivalents		120,426	(31,342)
Cash and cash equivalents at beginning of year		92,571	121,059
Effect of foreign exchange rate changes		(13,779)	2,854
Cash and cash equivalents at end of year		199,218	92,571

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 10.

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.

<u>Adoption of new and current standards</u>
Three interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 11 IFRS2: Group and Treasury Share Transactions; IFRIC 12 Service Concession Arrangements; and IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

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

IFRS 1 (revised)	First Time Adoption of IFRS
Amendments to IFRS 2	Vesting conditions and cancellations
IFRS 3 (revised)	Business Combinations
IFRS 8	Operating segments
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IAS 1 (revised)	Presentation of Financial Instruments
IAS 23 (revised)	Borrowing Costs
Amendments to IAS 27	Consolidated and Separate Financial Statements
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items
Amendments to IAS 39	Reclassification of Financial Assets: Effective Date and Transition

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, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

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 equity investments and financial instruments. The principal accounting policies adopted by the company are set out below.

The going concern basis has been adopted in preparing the financial statements, as described in more detail on page 11.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries, together the "Group") 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

2. Significant accounting policies (continued)

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) 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.

d) 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.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales taxes.

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 hosted services, 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 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.

2. Significant accounting policies (continued)

Revenues from hosted services are separated, using the residual method, into capture and data restoration services and archival services. Revenues for capture and data restoration are recognised in the period in which they are delivered. Revenues for archival services are recognised over the term of the service.

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.

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 archival services and 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.

f) Leasing

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

g) 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.

h) Profit from operations

Profit from operations is stated before investment income and finance costs.

i) 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.

2. **Significant accounting policies (continued)**

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.

j) 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.

k) 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.

l) 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.

m) 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.

2. Significant accounting policies (continued)

n) Inventories

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

o) 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.

p) 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.

q) Financial instruments

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

Financial Assets
Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL
Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL
A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 27.

2. Significant accounting policies (continued)

Available for sale financial assets
Unlisted shares and listed redeemable notes held by the group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 27. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derecognition of financial assets
The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2. Significant accounting policies (continued)

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
All financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

Derivative financial instruments
The group does not use derivative financial instruments.

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.

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 $11.2 million (2007: $6.9 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 $796.6 million (2007: $820.1 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, the US and Canada. The company also has a significant presence in a number of other European countries as well as China, Japan, Singapore and Australia. The following table provides an analysis of the group's sales by geographical market based on the location of the group's customers.

	Revenue by geographical market	
	2008	2007
	$'000	$'000
Americas	324,287	211,119
Rest of World	178,942	132,290
	503,229	343,409

Segment information about these geographical segments is presented below:

Result	2008			2007		
	Americas	ROW	Total	Americas	ROW	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment result	139,104	43,405	182,509	66,006	26,027	92,033
Post-acq'n restructuring costs			(1,157)			(1,757)
Impairment of investment			—			(1,026)
Gain (loss) on foreign exch.			5,141			(601)
Profit from operations			186,493			88,649
Share of loss of associate			(2,196)			(1,673)
Interest receivable			3,353			6,914
Interest payable			(1,943)			(2,443)
Profit before tax			185,707			91,447
Tax			(53,958)			(28,982)
Profit for the period			131,749			62,465

Other Information	2008			2007		
	Americas	ROW	Total	Americas	ROW	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Prop., plant & equip. add's	13,340	945	14,285	8,741	2,588	11,329
Purchased intangible add's	—	—	—	71,200	6,472	77,672
Other intangible asset add's	7,831	3,328	11,159	5,404	1,538	6,942
Depreciation	12,539	1,556	14,095	7,578	1,120	8,698
Amortisation	21,038	3,275	24,313	1,783	13,530	15,313
Balance Sheet						
Segment assets	417,742	104,130	521,872	260,826	131,522	392,348
Interests in associates			1,819			3,909
Goodwill			796,632			820,147
Consolidated total assets			1,320,323			1,216,404
Segment liabilities	(146,447)	(53,976)	(200,423)	(150,373)	(67,718)	(218,091)
Unallocated corp. liabilities			—			—
Consolidated total liabilities			(200,423)			(218,091)

5. Profit from operations

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

	2008 $'000	2007 $'000
Net foreign exchange (gains) losses	(5,141)	601
Research and development costs		
Expensed in income statement	78,410	62,341
Depreciation of property, plant and equipment charged in operating expenses (see note 13)	14,095	8,698
Amortisation of intangibles charged in cost of sales (see note 12)	19,489	12,955
Amortisation of intangibles charged in operating expenses (see note 12)	4,824	2,358
Staff costs (see note 7)	159,877	133,385
Post acquisition restructuring costs (see below)	1,157	1,757
Auditors' remuneration for audit services (see note 6)	1,153	962

The post acquisition restructuring costs relate to redundancy payments and related costs in relation to reductions in force following the acquisition of ZANTAZ, Inc. and Meridio Holdings Ltd.

6. Auditors' remuneration

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

	2008 $'000	2007 $'000
Fees payable to the company's auditors for the audit of the company's annual accounts	526	599
Fees payable to the company's auditors and their associates for other services to the group		
audit of the company's subsidiaries pursuant to legislation	627	363
Total audit fees	1,153	962
other services pursuant to legislation	284	599
tax services	280	190
corporate finance services	623	491
Total non-audit fees	1,187	1,280

A description of the work of the audit committee is set out in the corporate governance statement beginning on page 13 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 2008 related to due diligence work in connection with the proposed acquisition of Interwoven, Inc.

7. Staff costs

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

	2008 (number)	2007 (number)
Administration and management	137	118
Technical personnel	853	719
Sales and marketing	258	294
	1,248	1,131

Aggregate remuneration comprised:	$'000	$'000
Wages and salaries	147,255	124,304
Social security costs	11,692	8,393
Pension costs	930	688
	159,877	133,385

8. Interest receivable

	2008	2007
	$'000	$'000
Interest on bank deposits	3,353	6,914

Total revenue for the group including revenue from sale of goods and interest receivable is $506.6 million (2007: $350.3 million)

9. Tax

	2008	2007
	$'000	$'000
Current tax:		
Current year	53,252	30,634
Prior year	(1,539)	—
	51,713	30,634
Deferred tax:		
Current year	2,245	(1,652)
	53,958	28,982

UK Corporation tax is calculated at 28.5% (2007: 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:

	2008		2007	
	$'000	%	$'000	%
Profit before tax	185,707		91,447	
Tax at UK corporation tax rate of 28.5% (2007: 30%)	52,926	28.5%	27,434	30.0%
Tax effect of exp. not deductible in determining taxable profit	627	0.3%	400	0.4%
Research and Development tax credits	(428)	(0.2%)	(450)	(0.5%)
Current tax ben. of utilisation of tax losses not prev. recognized	(3,617)	(1.9%)	—	—
Other timing differences	2,798	1.5%	—	—
Effect of different tax rates of subs operating in other jurisdictions	3,191	1.7%	1,598	1.8%
Prior year adjustment	(1,539)	(0.8%)	—	—
Tax expense and effective tax rate for the year	53,958	29.1%	28,982	31.7%

10. Earnings per share

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

	2008	2007
	$'000	$'000
Earnings for the purposes of basic and diluted earnings per share being net profit	131,749	62,465
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	214,523	201,252
Effect of dilutive potential ordinary shares:		
Share options	2,635	3,973
Weighted average number of ordinary shares for the purposes of diluted earnings per share	217,158	205,225

Basic and diluted earnings per share (adjusted) of $0.69 and $0.68 respectively (2007: $0.38 for both measures) is calculated by dividing the net profit (adjusted) amounts shown on page 26 by the share denominators shown above.

11. Goodwill

	$'000
Cost	
At 1 January 2007	415,758
Acquisitions	406,654
Exchange differences	(2,265)
At 1 January 2008	820,147
Movements in current year	(5,853)
Exchange differences	(17,662)
At 31 December 2008	796,632
Accumulated impairment losses	
At 1 January 2007	—
At 1 January 2008	—
At 31 December 2008	—
Carrying amount	
At 31 December 2008	796,632
At 31 December 2007	820,147

The movements in the current year relate to adjustments to the goodwill of the company's prior year acquisitions, ZANTAZ Inc. and Meridio Holdings Limited.

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 10% has been used which is consistent with the rate used for determining the value of purchased intangibles. 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 revenue growth rate of 18% for year 1, 15% for years 2 to 5 and then 5% thereafter. Fixed expenses have been assumed to grow at 1% for year 1 and then 5% thereafter. Variable expenses (directly linked to sales) have been assumed to remain a constant percentage of sales throughout the forecast period. The rates used above reflect historical rates achieved and expected levels for 2009 but then are prudently adjusted for subsequent years. Having performed impairment testing, no impairment has been identified, and therefore no impairment loss has been recognised in either year.

The group has prepared a sensitivity showing zero growth throughout the ten year period and increasing the discount rate to 20%. Even at this level no impairment is required to be recorded.

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 2007	12,869	827	3,369	47,737	64,802
Reclassifications	(3,673)	(623)	—	4,296	—
Exchange differences	170	4	14	(197)	(9)
Additions – internally generated	—	—	6,942	—	6,942
Acquired on acquisition	—	—	—	77,672	77,672
At 1 January 2008	9,366	208	10,325	129,508	149,407
Exchange differences	(1,271)	(57)	(1,402)	(3,395)	(6,125)
Additions – internally generated	—	—	11,159	—	11,159
At 31 December 2008	8,095	151	20,082	126,113	154,441
Amortisation					
At 1 January 2007	11,041	685	432	7,812	19,970
Reclassifications	(2,493)	(481)	—	2,974	—
Exchange differences	138	4	23	3	168
Charge for the year	632	—	1,726	12,955	15,313
At 1 January 2008	9,318	208	2,181	23,744	35,451
Exchange differences	(1,490)	(57)	(183)	(2,287)	(4,017)
Charge for the year	244	—	4,580	19,489	24,313
At 31 December 2008	8,072	151	6,578	40,946	55,747
Carrying amount					
At 31 December 2008	23	—	13,504	85,167	98,694
At 31 December 2007	48	—	8,144	105,764	113,956

13. Property, plant and equipment

	Leasehold improvements	Fixtures and fittings	Computer equipment	Total
	$'000	$'000	$'000	$'000
Cost				
At 1 January 2007	2,907	1,979	10,754	15,642
Additions	348	374	10,607	11,329
Disposals	—	—	(2,553)	(2,553)
Acquisition of subsidiaries	6,023	832	13,738	20,593
Exchange differences	71	112	278	461
At 1 January 2008	9,349	3,299	32,824	45,472
Additions	2,769	1,336	10,180	14,285
Disposals	(822)	(211)	(7,462)	(8,495)
Exchange differences	(899)	(295)	(2,388)	(3,582)
At 31 December 2008	10,397	4,129	33,154	47,680
Accumulated depreciation and impairment				
At 1 January 2007	1,036	1,415	6,965	9,416
Charge for the year	1,048	590	7,060	8,698
Disposals	—	—	(1,873)	(1,873)
Exchange differences	11	122	310	443
At 1 January 2008	2,095	2,127	12,462	16,684
Charge for the year	1,721	674	11,700	14,095
Disposals	(822)	(211)	(7,109)	(8,142)
Exchange differences	(13)	(640)	(1,654)	(2,307)
At 31 December 2008	2,981	1,950	15,399	20,330
Carrying amount				
At 31 December 2008	7,416	2,179	17,755	27,350
At 31 December 2007	7,254	1,172	20,362	28,788

At 31 December 2008, the group had no contractual commitments for the acquisition of property, plant and equipment (2007: $nil).

14. Equity and other investments

	2008 $'000	2007 $'000
Associates	1,819	3,909
Other investments	5,622	16,101
	7,441	20,010

a) Investments in associates

	2008 $'000	2007 $'000
At beginning of year	3,909	2,160
Exchange movements	(2,183)	272
Additions	2,289	3,150
Share of loss of associate for year	(2,196)	(1,673)
At end of year	1,819	3,909

The aggregated amounts in relation to the associate undertaking are shown below:

	2008 $'000	2007 $'000
Total assets	11,736	5,744
Total liabilities	(10,116)	(2,411)
Revenues	14,936	2,990
Loss	(5,490)	(4,183)

b) Other investments

	2008 $'000	2007 $'000
Available for sale investments carried at fair value		
Quoted shares	5,272	15,656
Financial asset held at fair value through profit and loss		
Unquoted shares	350	445
Total equity and other investments	5,622	16,101

In May 2007 the group demerged its consumer business which was successfully floated on AIM as blinkx Plc. The group retained a 10% interest in blinkx Plc which is carried at fair value. This investment was originally recorded at cost and is valued at the year end based on the market price at 31 December 2008 of £0.13 per share. Quoted investments are subject to market risk and can increase or decrease in value depending on the share price of the relevant instruments. This investment has been classified as available for sale under IAS 39, and all changes in fair value have been recognised directly in equity during the period. No amounts have been removed from equity and recognised in the income statement for the period.

The unquoted 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. An impairment charge of $nil (2007: $1,026,000) was incurred during the year.

15. Other financial assets

a) Trade and other receivables

	2008 $'000	2007 $'000
Amounts due from customers	153,553	115,964
Allowance for doubtful debts	(12,301)	(5,496)
Trade receivables, net	141,252	110,468
Other receivables	35,554	21,019
	176,806	131,487

15. Other financial assets (continued)

The average credit period for trade receivables is 84 (2007: 83) days.

The group has credit risk with respect to trade receivables due from its customers. Autonomy has over 17,000 customers spread across diverse industries and geographical areas and hence the concentration of credit risk from trade receivables is limited due to the large and broad customer base. A large proportion of the group's customer base includes various governments and large blue-chip companies which also limits the exposure to credit risk. The company has no material risk associated with new customers or resellers who the company has no experience of trading with. Allowance is made for bad and doubtful debts based on management's assessment of the risk taking into account the ageing profile, experience and circumstance. Interest charged when amounts from customers are past due is not material. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. The group does not have any debtors with renegotiated terms.

Included in the group's trade receivables balance are debtors with a carrying amount of $47.9 million (2007: $34.3 million) which are past due at the reporting date and not impaired. Of the amounts over 90 days past due a large proportion relates to balances for which the group has not yet recognised the revenue and hence no significant exposure is present.

The remaining balance of $93.4 million (2007: $76.2 million) is not yet due. Of this balance $6.5m (2007: $nil) is due after one year. The group's allowance for doubtful debts increased to $12.3 million (2007: $5.5 million). The charge for the year, net of amount utilized, was $6.8 million (2007: credit of $0.2 million).

Trade receivables that are past due are provided for based on estimated irrecoverable amounts determined by reference to past default experience and any other relevant circumstances. In determining the recoverability of a trade receivable the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. No individual debt accounts for more than 10% of this balance in either year. Other receivables includes a balance of $6.0m (2007: $nil) which is due after more than one year.

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	Stock option losses	Total
	$'000	$'000	$'000
At 1 January 2007	—	7,155	7,155
Impact of acquisition of subsidiary	—	1,446	1,446
Recognition of tax losses	234	—	234
Transfers from current tax creditor	—	(12,431)	(12,431)
Credited to equity	—	12,431	12,431
Foreign exchange movement	—	27	27
At 1 January 2008	234	8,628	8,862
Charged to income statement	—	(11,900)	(11,900)
Credited to equity	—	18,047	18,047
Foreign exchange movement	—	(1,542)	(1,542)
At 31 December 2008	234	13,233	13,467

16. Deferred tax asset (continued)

At the balance sheet date, the group has an unrecognised deferred tax asset in respect of unused tax losses of $97.0 million (2007: $89.2 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 2018 through 2027.

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

17. Other financial liabilities

	2008	2007
	$'000	$'000
Trade payables	12,434	11,595
Other payables	19,511	29,374
	31,945	40,969

The average credit period for trade purchases for the group is 44 (2007: 50) days. The directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest has been charged by suppliers in respect of overdue amounts in either year.

18. Bank loans

	2008	2007
	$'000	$'000
Bank loans	37,231	47,869
The borrowings are repayable as follows:		
On demand or within one year	10,637	10,638
In the second year	10,638	10,638
In the third to fifth years inclusive	15,956	26,593
	37,231	47,869
Less: Amount due for settlement within 12 months (shown under current liabilities)	(10,637)	(10,638)
Amount due for settlement after 12 months	26,594	37,231

The loan is denominated in U.S. dollars and carries a floating interest rate of LIBOR plus 0.5%, 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.

The loan is subject to certain financial and other covenants which have all been met during the year. The loan is covered by a guarantee from Autonomy Corporation plc but is not secured against any assets of the group.

19. Provisions

	Restructuring provision	Onerous lease provision	Litigation provision	Total
	$'000	$'000	$'000	$'000
At 1 January 2007	660	2,786	750	4,196
Exchange movements	(9)	23	—	14
Additional provision in the period	182	480	—	662
Utilized in period	(731)	(2,035)	(750)	(3,516)
At 1 January 2008	102	1,254	—	1,356
Exchange movements	—	(102)	—	(102)
Utilized in period	(102)	(726)	—	(828)
At 31 December 2008	—	426	—	426

	2008	2007
	$'000	$'000
Included in current liabilities	426	1,099
Included in non-current liabilities	—	257
	426	1,356

The restructuring provision in 2007 relates to costs in connection with a reduction in force programme following the acquisitions in the year. The remaining amounts were paid during 2008 and the provision fully utilized in that period.

19. Provisions (continued)

The onerous lease provision relates to a number of properties within the group and the provision represents management's best estimate of the liability. Tenants are still being sought on the properties and hence the onerous lease obligations remain. This is expected to be fully utilized during 2009.

20. Deferred tax liability

	2008	2007
	$'000	$'000
Tax on purchased intangibles		
At 1 January 2008	—	—
Charged to Income Statement	2,537	—
At 31 December 2008	2,537	—

21. Share capital

	2008	2007
	$'000	$'000
Authorized:		
600,000,000 ordinary shares of 1/3p each	3,300	3,300
Issued and fully paid:		
215,817,197 ordinary shares of 1/3p each	1,214	1,196
(2007 – 213,066,320 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 2008 consists solely of the issuance of 2,750,877 shares in relation to employee stock option exercises, and in 2007 consists of the issuance of 21,037,157 shares in relation to financings and acquisitions and 4,192,959 shares in relation to employee stock option exercises.

22. Own shares

	Own shares
	$'000
Balance at 1 January 2007	1,017
Disposed of on exercise of options	(36)
Balance at 31 December 2007	981
Disposed of on exercise of options	(76)
Balance at 31 December 2008	905

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 25). At 31 December 2008 the Trust held 447,594 shares (2007: 484,844).

23. Notes to the cash flow statement

	2008	2007
	$'000	$'000
Profit from operations	186,493	88,649
Adjustments for:		
Loss on disposal of fixed assets	353	202
Impairment of investments	—	1,026
Depreciation of property, plant and equipment	14,095	8,698
Amortisation of intangible assets	24,313	15,313
Share based compensation	5,484	3,786
Foreign currency movements	(5,141)	601
Operating cash flows before movements in working capital	225,597	118,275
(Increase) decrease in inventories	(154)	368
Increase in receivables	(54,870)	(23,247)
Increase (decrease) in payables	8,210	(12,288)
Cash generated by operations	178,783	83,108
Income taxes paid	(32,447)	(649)
Net cash from operating activities	146,336	82,459

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.

24. Operating lease arrangements

	2008	2007
	$'000	$'000
Minimum lease payments under operating leases recognised in the income statement for the year	12,192	9,669

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

	2008	2007
	$'000	$'000
Within one year	11,506	11,681
In the second to fifth years, inclusive	29,033	33,336
After five years	7,015	13,229
	47,554	58,246

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.

25. Share based payments

a) *Share based compensation*

Share based compensation charges have been charged in the income statement within the following functional areas:

	2008	2007
	$'000	$'000
Research and development	1,654	1,248
Sales and marketing	2,739	2,044
General and administrative	1,091	494
	5,484	3,786

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 2008 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.

25. Share based payments (continued)

The following tables summarize options outstanding as at 31 December:

	2008		2007	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at beginning of period	8,947,215	4.49	12,357,097	3.92
Granted during the period	2,123,243	9.26	2,255,624	7.80
Acquired upon acquisition of ZANTAZ	—	—	697,247	4.05
Exercised during the period	(2,742,324)	3.33	(4,167,933)	3.12
Expired during the period	(762,410)	6.34	(2,194,820)	14.58
Outstanding at the end of the period	7,565,724	6.21	8,947,215	4.49
Exercisable at the end of the period	3,965,744	4.56	4,472,825	3.21

The weighted average share price, at the date of exercise, for share options exercised during the period was £9.79. The options outstanding at 31 December 2008 had a weighted average exercise price of £6.21 and a weighted average remaining contractual life of 5.01 years.

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

Date	Shares Number	Fair value of option £
14 January 2008	5,000	3.06
11 February 2008	5,000	3.00
3 March 2008	491,323	2.88
7 March 2008	210,000	2.72
16 May 2008	295,000	2.74
24 June 2008	175,000	2.71
1 July 2008	10,000	2.88
22 July 2008	2,500	3.41
8 August 2008	501,500	3.19
2 September 2008	2,000	3.21
13 November 2008	425,920	2.71
	2,123,243	

b) Equity-settled share option plans

The assumptions for the Black-Scholes model are as follows:

	2008	2007
Weighted average share price	£9.26	£7.80
Weighted average exercise price	£9.26	£7.80
Expected volatility	40%	40%
Expected life	3 years	3 years
Risk-free rate	3.5%	3.5%
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.

26. 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 associate

There have been no transactions during 2008 and there are no balances due to or from the associate at 31 December 2008 (2007: $nil).

26. Related party transactions (continued)

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 18, 19 and 20.

	2008	2007
	$'000	$'000
Share-based payment	725	287

27. Financial Instruments

a) Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 21 and the Consolidated Statement of Changes in Equity on page 28.

The group aims to maintain cash balances over $100 million to provide both security to customers making a significant long term investment when they acquire our software and to provide funds for potential acquisitions should the opportunity arise.

b) Externally imposed capital requirement

The group is not subject to externally imposed capital requirements.

c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

d) Derivative contracts

The group does not enter into any financial derivative contracts.

e) Classes of financial instruments

For the purposes of risk management, the group has identified the following classes of financial assets and liabilities:

		Carrying Value	
		2008	2007
	Note	$'000	$'000
Financial assets			
Cash and cash equivalents		199,218	92,571
Amounts due from customers	15	153,553	115,964
Investments in shares	14b	5,622	16,101
Financial liabilities			
Bank loan at amortised cost	18	(37,231)	(47,869)
Trade payables	17	(12,434)	(11,595)

There is no difference between the carrying value and fair value of the above financial assets and liabilities in either year.

f) Financial risk management objectives

The group is subject to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The group does not use derivative financial instruments to hedge foreign currency exposures as the operating companies within the group principally generate revenues in the currencies in which they incur the majority of their expenditure. The group manages credit risk in respect of its trade receivables as set out in note 15. Liquidity risk and cash flow interest rate risk are limited as the group has no net debt. The Board review the respective risks on a quarterly basis to ensure no significant exposures exist.

27. Financial Instruments (continued)

g) Market risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group does not use derivatives to manage the foreign currency risks due to the natural hedging that exists within the group. Interest rate risk is not considered significant as the cash balances exceed the bank loan balance.

Market risk exposures are measured using sensitivity analysis. There has been no change to the group's exposure to market risks or the manner in which it manages and measures the risk.

h) Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise both in terms of transactional risk as well as translational risk. The group is naturally hedged, as noted above, which addresses the transactional risk. Translational risk is minimal and is not hedged by the group as the majority of the group's assets and liabilities are denominated in dollars which is also the group's presentational currency. The carrying amounts of the group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Euro	(852)	(865)	37,707	23,279
US Dollar	(43,944)	(55,758)	266,484	122,290
Pounds Sterling	(4,832)	(2,788)	47,033	69,940
Other	(37)	(53)	4,801	9,127

i) Foreign currency sensitivity analysis

The group is mainly exposed to movements in pound sterling, US dollar and Euro.

The following table details the group's sensitivity to a 10% increase and decrease in the functional currency of the entity concerned against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Sterling strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Euro currency impact		US dollar currency impact	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Profit or loss				
- cash and cash equivalents	1,025	265	130	720
- amounts due from customers	2,151	1,526	390	373
- trade payables	60	27	127	206
Other equity				
- intercompany loans	—	—	—	—

The movements above arise where entities within the group have financial assets or liabilities in currencies other than the respective functional currencies. There has not been any significant change in the group's sensitivity to foreign currency during the year.

j) Interest rate risk management

The group is exposed to interest rate risk as it has a floating interest rate bank loan and receives interest on its cash and cash equivalent balances. The risk is managed by the group by maintaining sufficient cash balances to offset any exposure on the bank loan. The group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

k) Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

27. Financial Instruments (continued)

If interest rates had been 0.5% higher/lower and all other variables were held constant, the group's:

- profit for the year ended 31 December 2008 would decrease/increase by $0.2 million (2007: decrease/increase by $0.2 million). This is mainly attributable to the group's exposure to interest rates on its variable rate borrowings; and
- other equity reserves would be unaffected by the change in either year.

The group's sensitivity to interest rates has decreased during the current period as repayments of the bank loan have reduced the outstanding balance.

l) Other price risks

The group is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the group with opportunity for return through dividend income and trading gains. Equity investments designated as available for sale are held for strategic rather than trading purposes. The group does not actively trade these investments.

m) Equity price sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 25% higher/lower, other equity reserves would increase/decrease by $1.3 million (2007: $3.9 million) for the group as a result of the changes in fair value of available-for-sale shares.

The group's investment in blinkx is a strategic long term investment following the demerger and is expected to be held for the foreseeable future. Due to the early stages of this entity it is likely that there will be volatility in the share price and hence the value of this investment may vary significantly from period to period.

n) Credit risk management

The group is principally exposed to credit risk over its trade receivables. Details regarding the management of this risk are provided in note 15.

The group's investments in equity are in technology companies where management do not anticipate to receive dividends. No significant credit risk has been identified in relation to these investments.

The company does not invest its funds in deposits with maturities exceeding one month and therefore there is no significant price risk on cash and cash equivalents.

o) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

27. Financial Instruments (continued)

p) Liquidity and interest risk tables

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	1 to 5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000
2008						
Non interest bearing						
- Trade payables	—	12,434	—	—	—	12,434
- Operating leases	—	2,877	8,629	29,033	7,015	47,554
Variable interest rate instruments						
- Bank loan	4.40%	3,001	8,862	28,030	—	39,893
		18,312	17,491	57,063	7,015	99,881
2007						
Non interest bearing						
- Trade payables	—	11,595	—	—	—	11,595
- Operating leases	—	2,920	8,761	33,336	13,229	58,246
Variable interest rate instruments						
- Bank loan	5.74%	3,366	9,869	41,482	—	54,717
		17,881	18,630	74,818	13,229	124,558

q) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows

- The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include the quoted shares held in blinkx Plc.
- The fair value of unquoted shares is determined by management by considering the underlying profitability and net assets of those investments.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

28. 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 59.

29. Post-Balance Sheet Events

On 22 January 2009 the company announced that it had entered into a definitive agreement to acquire Interwoven, Inc., a global leader in content management software, for aggregate consideration of approximately $775 million (assuming exercise of all vested in-the-money Interwoven share options), funded by an underwritten placing of ordinary shares, a new revolving credit facility from Barclays and a portion of Interwoven and Autonomy's cash reserves. On the same date the company successfully completed the placing of 21,560,620 new ordinary shares at a placing price of £10.33 per share, raising gross proceeds of £222,721,205.

Company Only Financial Statements - Company Balance Sheet at 31 December 2008

	Note	2008 £'000	2007 £'000
Non-current assets			
Intangible assets	2	—	—
Investments in subsidiary undertakings	3	418,756	256,316
Investment in associate	4	4,107	2,925
Equity and other investments	5	3,660	7,842
		426,523	267,083
Current assets			
Trade and other receivables	6	35,105	182,956
Cash and cash equivalents		3,183	16,589
		38,288	199,545
Total assets		464,811	466,628
Current liabilities			
Trade and other payables	7	(1,137)	(3,151)
Net current assets		37,151	196,394
Non-current liabilities			
Other payables		—	(4,830)
Deferred tax liability	8	—	(111)
		—	(4,941)
Total liabilities		(1,137)	(8,092)
Net assets		463,674	458,536
Shareholders' equity			
Share capital		720	711
Share premium account		436,491	427,332
Capital redemption reserve		70	70
Merger reserve		13,207	13,207
Revaluation reserve		985	5,186
Own shares		(575)	(622)
Retained earnings		12,776	12,652
Total equity		463,674	458,536

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2009. They were signed on its behalf by:

Dr. Michael R. Lynch
Chief Executive Officer and Co-Founder
27 February 2009

Company Only Financial Statements - Company Statement of Changes in Equity for the year ended 31 December 2008

	Share capital (number)	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Sub-total £'000
At 1 January 2007	187,836,204	627	274,328	70	275,025
Retained loss	—	—	—	—	—
EBT movement	—	—	—	—	—
Revaluation of equity investment	—	—	—	—	—
Shares options exercised	4,192,959	14	11,620	—	11,634
Shares issued	21,037,157	70	141,384	—	141,454
At 31 December 2007	213,066,320	711	427,332	70	428,113
Retained profit	—	—	—	—	—
EBT movement	—	—	—	—	—
Revaluation of equity investment	—	—	—	—	—
Shares options exercised	2,750,877	9	9,159	—	9,168
At 31 December 2007	215,817,197	720	436,491	70	437,281

	Sub-total forwarded £'000	Merger reserve £'000	Revaluation reserve £'000	Own shares £'000	Retained earnings £'000	Total £'000
At 1 January 2007	275,025	—	—	(646)	14,599	288,978
Retained loss	—	—	—	—	(1,947)	(1,947)
EBT movement	—	—	—	24	—	24
Revaluation of eq. investm't	—	—	5,186	—	—	5,186
Shares options exercised	11,634	—	—	—	—	11,634
Shares issued	141,454	13,207	—	—	—	154,661
At 31 December 2007	428,113	13,207	5,186	(622)	12,652	458,536
Retained profit	—	—	—	—	124	124
EBT movement	—	—	—	47	—	47
Revaluation of eq. investm't	—	—	(4,201)	—	—	(4,201)
Shares options exercised	9,168	—	—	—	—	9,168
At 31 December 2008	437,281	13,207	985	(575)	12,776	463,674

	2008	2007
	£'000	£'000
Net cash from operating activities	(35,286)	(352)
Investing activities		
Interest received	752	655
Investment in associates and joint venture	(1,183)	(745)
Purchases of investments	(19)	(1,778)
Investment in subsidiaries	(2,636)	(11,060)
Net cash used in investing activities	(3,086)	(12,928)
Financing activities		
Acquisition of subsidiaries	—	(181,100)
Proceeds from issuance of shares	24,966	173,089
Net cash from (used in) financing activities	24,966	(8,011)
Net decrease in cash and cash equivalents	(13,406)	(21,291)
Cash and cash equivalents at beginning of year	16,589	37,880
Cash and cash equivalents at end of year	3,183	16,589

Cash and cash equivalents represent cash and short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Note to the Cash Flow Statement

	2008	2007
	£'000	£'000
Loss from operations	(590)	(2,602)
Operating cash flows before movements in working capital	(590)	(2,602)
(Decrease) increase in intercompany balances	(34,739)	2,393
Increase in receivables	(93)	(613)
Increase in payables	136	459
Cash reduced by operations	(35,286)	(363)
Tax paid	—	11
Net cash used in operating activities	(35,286)	(352)

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 (2007: three). 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 beginning and end of year	3,147	104	3,251
Amortisation			
At beginning and end of year	3,147	104	3,251
Carrying amount			
At 31 December 2007 and 2008	—	—	—

3. Investments in subsidiary undertakings

The company has investments in the subsidiaries listed on page 59 which principally affected the profits or net assets of the group.

	£'000
Cost	
At 1 January 2008	256,316
Additions	410
Other movements	(4,830)
Reclassification of intercompany balance	166,860
At 31 December 2008	418,756

4. Investment in associate

During the year the company invested an additional £1.2 million as part of its Chinese associate operations.

5. Equity and other investments

	2008	2007
	£'000	£'000
Fair value through profit and loss	3,660	7,842

The investment above represents the company's 10% interest in blinkx Plc following the demerger in May 2007. See note 14b of the group accounts for additional information.

6. Trade and other receivables

	2008	2007
	£'000	£'000
Amounts owed by subsidiary undertakings	34,088	181,959
Other receivables	1,017	997
	35,105	182,956

Amounts owed by subsidiary undertakings
At the balance sheet date amounts receivable from the fellow Group companies were $34.4 million (2007: $182.0 million). The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances (2007: nil).

7. Trade and other payables

	2008	2007
	£'000	£'000
Trade payables	664	638
Deferred consideration	—	2,226
Other payables	398	287
Tax liabilities	75	—
	1,137	3,151

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

8. Deferred tax liability

	2008
	£'000
At 1 January 2008	111
Released in current tax	(111)
At 31 December 2008	—

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

9. Related party transactions

During the year the company had no license fee related expenditures (2007: £nil).

All transactions are conducted on an arm's length basis and the amount owed by subsidiary undertakings is disclosed in note 7.

10. Financial Instruments

The policies of the group are discussed in note 26 to the consolidated financial statements. The tables below provide the financial instruments disclosures for the company.

a) Classes of financial instruments

For the purposes of risk management, the company has identified the following classes of financial assets and liabilities:

		Carrying Value	
		2008	2007
	Note	£'000	£'000
Financial assets			
Cash and cash equivalents		3,183	16,589
Investments in shares	5	3,660	7,842
Amounts owed by subsidiary undertakings	6	34,088	181,959
Financial liabilities			
Trade payables	8	(664)	(638)

There is no difference between the carrying value and fair value of the above financial assets and liabilities in either year.

10. Financial Instruments (continued)

b) Foreign currency risk management

The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
US Dollar	(226)	(388)	30	90

c) Foreign currency sensitivity analysis

The Company is mainly exposed to movements in US dollar.

The following table details the Company's sensitivity to a 10% increase and decrease in the functional currency of the entity concerned against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Sterling strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	US dollar currency impact	
	2008	2007
	£'000	£'000
Profit or loss		
- cash and cash equivalents	43	9
- trade payables	17	39

The movements above arise where the company has financial assets or liabilities in currencies other than Sterling. There has not been any significant change in the company's sensitivity to foreign currency during the year.

d) Other price risks

The company is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the Company with opportunity for return through dividend income and trading gains. Equity investments designated as available for sale are held for strategic rather than trading purposes. The Company does not actively trade these investments.

e) Equity price sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 25% higher/lower other equity reserves would increase/decrease by £0.9 million (2007: £2 million) for the Company as a result of the changes in fair value of available-for-sale shares.

The Company's investment in blinkx is a strategic long term investment following the demerger and is expected to be held for the foreseeable future. Due to the early stages of this entity it is likely that there will be volatility in the share price and hence the value of this investment may vary significantly from period to period.

10. Financial Instruments (continued)

f) Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Less than 3 months	3 months to 1 year	1 to 5 years	Total
	£'000	£'000	£'000	£'000
2008				
Non interest bearing				
- Trade payables	664	—	—	664
2007				
Non interest bearing				
- Trade payables	638	—	—	638

g) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows.

- The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include the quoted shares held in blinkx Plc.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

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
ZANTAZ, Inc.	USA	Software development and distribution
ZANTAZ UK Limited	England	Marketing and sales support
Meridio Holdings Limited	Northern Ireland	Software development and distribution

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_relations@autonomy.com.

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