

**Autonomy Corporation plc**  
and subsidiary undertakings

Consolidated financial statements  
for the year ended 31 December 2004  
together with directors' and auditors' reports

Registered number: 3175909



## **Directors' Report**

### **For the year ended 31 December 2004**

The directors present their report and group financial statements for the year ended 31 December 2004.

#### **Principal activity**

The principal activity of the group during 2004 continued to be software development and distribution and related support and maintenance services. The group operates throughout Europe, North America and Asia, with significant activities in the U.S., Canada, France, Germany, Belgium, the Netherlands, Spain, Italy, Sweden, Norway, China, Singapore and Australia.

#### **Review of developments**

The CEO's letter and the Operating and Financial Review in the company's non-statutory accounts provide further comment on the results for the year.

#### **Results**

Revenue for the year ended 31 December 2004 was £35.3 million, an increase of 5.6% from £33.5 million for 2003. Net profit was £1.3 million for 2004 compared with net profit of £5.5 million for 2003. A detailed review of the company's results is set forth in the company's non-statutory accounts.

#### **Research and development**

The company continues to develop new software products and expects further product launches during 2005. The total amount incurred for research and development expenditure during 2004 was £9.0 million, as compared with £8.2 million in 2003. During 2004 the company launched major product upgrades, including the next generation of the company's core IDOL Server product, with similar launches expected during 2005. Development costs of £0.6 million in relation to this development have been deferred.

#### **Dividends and share repurchases**

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 potentially significant investment in further research and development, the company to date has not paid or declared dividends on its shares, in common with most of its peer companies in the high technology sector. The policy will be kept under continual review. Accordingly the directors do not recommend the payment of a dividend (2003 - £Nil).

During 2004 the company continued its open-market share repurchase program returning capital to shareholders, purchasing for cancellation 3,091,512 of its own ordinary shares, nominal value 1/3p per share, at an average price of £1.86 per share. In total, the company has purchased for cancellation 20,403,882 shares, representing approximately 18.9% of the company's total issued share capital at 31 December 2004, at an average price of £1.63 per share. The aggregate consideration paid by the company for the shares was £33.4 million. As of 31 December 2004, the company had remaining authorization to purchase 10,424,395 shares and the company expects to continue its repurchase program during 2005.

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

#### **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. Ariko and McMonigal were re-elected as Directors at the company's Annual General Meeting in 2002 and thus are standing for re-election at the next Annual General Meeting. All directors' biographies appear in the company's non-statutory accounts. Each individual's performance continues to be effective and they demonstrate commitment to their roles. Biographies for the directors standing for re-election are as follows:

- Barry M. Ariko, 58, 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 and Aspect Communications. Mr. Ariko holds a B.S. in Management from Golden Gate University in San Francisco and in 1992 completed the Advanced Executive Program at Northwestern University's J. L. Kellogg Graduate School of Management.

## Directors' Report (continued)

- John P. McMonigall, 61, has served as a non-executive director of Autonomy since July 1998. Since April 1990, Mr. McMonigall has worked for Apax Partners Worldwide LLP, a private equity firm, where he is responsible for Apax' investments in private companies in telecommunications, software and related fields. From 1986 to 1990, Mr. McMonigall held a variety of positions at British Telecom where he served as a member of the Management Board. He currently serves on the board of Dialog Semiconductor Plc. Mr. McMonigall also serves on the boards of several privately owned companies as a non-executive director, including Neurodynamics Limited.

### Directors and their interests

A list of the directors, their interests in the ordinary share capital of the company and details of any share options over the ordinary share capital of the company is set forth in the report of the Remuneration Committee on page 10. 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.

### Substantial shareholdings

As at 13 April 2005, the directors were aware that the following persons, other than the directors, directly or indirectly, own or control three per cent or more of the issued ordinary share capital of the company:

	Ordinary shares of 1/3p each (1)	
	Number	%
The Capital Group Companies, Inc.....	10,652,429	9.9
Fidelity International Limited	7,580,296	7.0
OppenheimerFunds .....	5,036,276	4.7
Bluecrest Equity Master Fund Limited	4,353,101	4.0
Prudential plc .....	3,752,682	3.5

(1) Based on 107,990,856 ordinary shares outstanding as of 13 April 2005.

### Supplier payment policy

The company's policy is whenever it is reasonable to do so, to settle payment terms with those suppliers when agreeing terms for each transaction and to ensure that those suppliers are made aware of the payment terms by their inclusion in the relevant contracts. 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 2004 calculated in accordance with the Companies Act 1985 for the company was 19 days (2003 - 50 days) and for the principal U.K. subsidiary was 42 days (2003 - 78 days).

### Charitable and political contributions

The group made £25,000 in charitable donations during 2004 to the International Institute for Strategic Studies (2003 - £25,000). The group did not make any political contributions during 2004 (2003 - £Nil).

### Going Concern

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

### Annual General Meeting

The Annual General Meeting will be held at the group's offices in Cambridge, UK, on 31 May 2005 at 1:00 pm. The company will convey the results of proxy votes cast at the Annual General Meeting, and the results of the meeting will be announced through the regulatory news services. Notice of the Annual General Meeting is set out in the circular to shareholders accompanying this annual report. The company is committed to the policy of one share one vote. The directors will place a resolution before the Annual General Meeting to reappoint Deloitte & Touche LLP as auditors for the ensuing year.

### Statement of directors' responsibilities in respect of the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

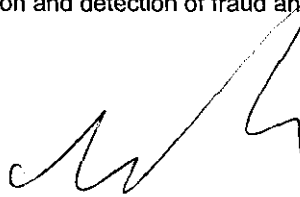
## Directors' Report (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board,



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



Cambridge Business Park  
Cowley Road  
Cambridge CB4 0WZ

26 April 2005

## Corporate Governance Statement

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

### Compliance with the Combined Code

Throughout 2004, the company complied with the provisions set out in Section 1 of the Combined Code, unless otherwise indicated below. The company has applied the Principles of Good Governance set out in Section 1 of the Combined Code by complying with the Code of Best Practice as set forth below and in the Remuneration Report below. Following the Higgs and Smith Reports into the roles of non-executive directors and audit committees, the Code was superseded and replaced in July 2003. The revised Code applied to the company during 2004.

The company has an ongoing process for identifying, evaluating and managing the significant risks faced by the company that has been in place for 2004 and up to the date of approval of the annual report and accounts. Principal controls are managed by the executive directors and key employees, including regular review by management and the Board of the operations and the accounts of the company.

### Composition and Operation of the Board

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

The three independent 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. The Board has considered the independence of the non-executive directors and believes that all of the non-executive directors are currently independent of management and free from any material business or other relationships that could materially interfere with the exercise of their independent judgement. Mr. McMonigall's potential financial interest in Cambridge Neurodynamics, an entity in which Dr. Lynch and Mr. McMonigall's employer together have an investment, is not considered to be material in scope or amount or directly beneficial to Mr. McMonigall. Further, 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 nearly nine years.

All directors' biographies appear in the company's non-statutory accounts. Biographies for the directors standing appear on pages 2 and 3. Together these demonstrate that the directors have a range of experience and are of sufficient calibre to bring independent judgement on issues of strategy, performance, resources, finance, controls and standards of conduct. The Board does not sit with a permanent chairman, but rather the chair rotates amongst the senior members present at the meeting excluding the CEO. The Board is structured to ensure that there is no undue dominance by the executive directors. 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. Training is made available to the directors where it is considered appropriate. A statement of the directors' responsibilities in respect of the accounts is set out on pages 2 and 3.

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.

All directors are subject to re-election by shareholders every three years, and at each annual general meeting one third must retire by rotation. Directors who are appointed by the Board must retire at the next annual general meeting so that they may be re-elected by the shareholders. Mr. McMonigall is the Board's senior non-executive director.

The Board meets at least once a quarter, meeting four times during 2004 and acting by unanimous written consent twice. The Board has a schedule of matters specifically reserved to it for decision, which includes approval of accounts, 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. 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. 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.

## Corporate Governance Statement (continued)

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

- **Audit Committee.** The members of the audit committee are John McMonigall, Barry Ariko and Richard Perle. Each of Messrs McMonigall and Ariko have significant material financial expertise. 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, 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. In order to avoid the possibility that the auditors' objectivity and independence could be compromised, the company's tax consulting work is only carried out by the auditors in cases where they are best suited to perform the work, for example, tax compliance and advisory work relating to the audit. In most cases, the company engages another independent firm of accountants to perform tax consulting work. 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 committee also meets at least once a year with the external auditors without any executive directors present. The committee met four times during 2004. The committee is seeking to shortly appoint a new permanent chair following the departure of Mr. Opzoomer in October 2004.

- **Remuneration Committee.** A description of the composition, responsibility and operation of the remuneration committee is set out in the remuneration report on page 8.
- **Nominations Committee.** The Nominations Committee has responsibility for proposing to the Board new appointments of executive and non-executive directors and makes recommendations to the Board on board composition and balance. The committee identifies and nominates for approval candidates for new Board positions and to fill Board vacancies as and when they arise. Nominations are based on the balance of skills, knowledge and experience on the Board. The committee also reviews the time required from a non-executive director. The committee strives to consider candidates from a wide range of backgrounds, also taking into account what skills and expertise are needed on the Board in the future. In conducting its duties the committee may seek external advice. The committee meets as required, but did not meet formally during 2004. The committee currently consists of Messrs. Ariko and Perle, with Mr. Perle in the chair.

New members of the Board are expected to receive induction training in accordance with the recommendations of the Combined Code. The Company Secretary is secretary to all committees. Terms of references of the committees of the Board are available from the company secretary upon request.

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.

In October 2004 Mark Opzoomer, non-executive director, resigned his position on the Board. The Board is currently seeking to fill his position with a candidate with suitable financial and accounting experience. This candidate will be expected to chair the Audit Committee of the Board.

### Relations with Shareholders

Communication with shareholders is given high priority. The interim 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 also has a website ([www.autonomy.com](http://www.autonomy.com)) which contains up to date information on the company's activities and published financial results. The company holds regular investor conference calls and webcasts, and solicit regular dialogue with institutional shareholders other than during closed periods. The Board uses the Annual General Meeting to communicate with all shareholders and welcomes their participation.

## Corporate Governance Statement (continued)

### 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 accounts. The Board regularly reviews the effectiveness of the company's internal control systems, including financial, operational and compliance controls and risk management, and believes the system is in accordance with the Turnbull guidance. These reviews are principally based on reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Board has also performed a specific assessment for purposes of this Annual Report. 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 balance sheets and profit and loss and cash flow statements, 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.** Given the company's relatively small size, with approximately 205 employees world-wide as of 31 December 2004, the extensive internal reporting functions and significant executive director involvement in all aspects of the company's business affairs, the Board for the present does not consider it necessary to have its own internal audit function. The Board periodically will review the need for an internal audit function.

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 include, in addition to the above, 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.

### Compliance with the Code

Throughout the year ended 31 December 2004, and through to the date of approval of the financial statements, the Board consider that the company has complied with Section 1 of the 2003 Combined Code with certain exceptions. The company recently delisted from the Nasdaq National Market and the Board is presently evaluating the changes that are required in its corporate governance procedures as a result of this change. During the forthcoming year the Board will conclude on the appropriate changes where the company is not fully compliant with the Code.

*Non-Executive Directors' Service Contracts.* In accordance with the terms of their original appointments, Non-Executives currently serve under service contracts without a specified fixed term, but with notice periods of less than twelve months.

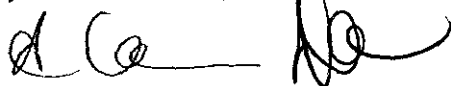
*Details of Board Meetings.* Details of individual attendance at board meetings has not been provided for the reasons described above.

## Corporate Governance Statement (continued)

In addition, throughout the year ended 31 December 2004, and through to the date of approval of the financial statements, the Board considered that the company has complied with Section 1 of the Revised Combined Code except to the extent described below:

*Board Performance Evaluations.* The Board has recently commenced evaluating the performance of the Board as a whole, its committees, the individual Non-Executive Directors, and the Chairman as required by provision A.6 of the Revised Combined Code. As such this process has not been in place for the whole of the year under review.

By order of the Board,



Andrew M Kanter  
Company Secretary  
26 April 2005



# Remuneration Report

## Compliance

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

## Members of the Remuneration Committee

The members of the Remuneration Committee are Messrs. Aiko and McMonigall. The chairman of the committee is Mr. Aiko.

## Governing Principles

The Remuneration Committee is primarily responsible for reviewing and approving general compensation policies and setting compensation levels for executive officers. The committee also administers incentive compensation plans. Consistent with the policies of the Combined Code, the company's policy for directors' remuneration for 2004 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 four 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. In accordance with the company's strategies and the significant equity interests of the executive directors in the company, directors' salaries have not been adjusted during the previous four years, with the exception of the Chief Financial Officer who received a small raise during 2003 when he joined the Board to align his base salary with industry norms.
- **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 revenue and profit 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 based on an individual's exceptional performance and significant and continuing contribution to performance of the company. These share option awards are then subject to vesting periods, with initial vesting generally after six or 12 months with the remainder vesting quarterly over a total of 2.5 to 3.5 years. The requirement for individuals to perform prior to granting options has been very effective in motivating performance. It enables the company to specifically tailor share option grants to an individual's role in an efficient manner. For example, a programmer might be awarded a small share option grant for completion of a project ahead of schedule, or the Chief Operating Officer might be awarded a small share option grant for effective integration of an acquired company. This method also keeps individuals continuously incentivized as a grantee must remain employed in good standing to achieve full vesting of the options. Finally, this method is also designed to ensure that individuals are not unjustly rewarded, which the Board believes is more likely if large option grants are made with broad performance targets. Under that method, an individual who was personally underperforming might nonetheless be enriched if the company met its own broader performance targets. 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 2004.

The committee has access to professional advice from outside advisors should it require assistance, but to date has not sought such advice as there has been no material change in any director's remuneration. Directors' remuneration is considered to be highly incentive-based given the executive directors' significant equity holdings in the company and the performance-based bonus plans. The committee did not formally meet during 2004 and acted once by unanimous written consent.

## Service Contracts

All executive directors have service contracts and all non-executive directors have appointment letters. All agreements provide for notice of six 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.

Dr. Lynch's employment agreement, dated 9 July 1998, provides for his employment as Managing Director and Chief Executive Officer, at a salary of £100,000 per annum. Mr. Gaunt's employment agreement, dated 9 July 1998, provides for his employment as the company's Technical Director, at a salary of £54,000 per annum. Both

## Remuneration Report (continued)

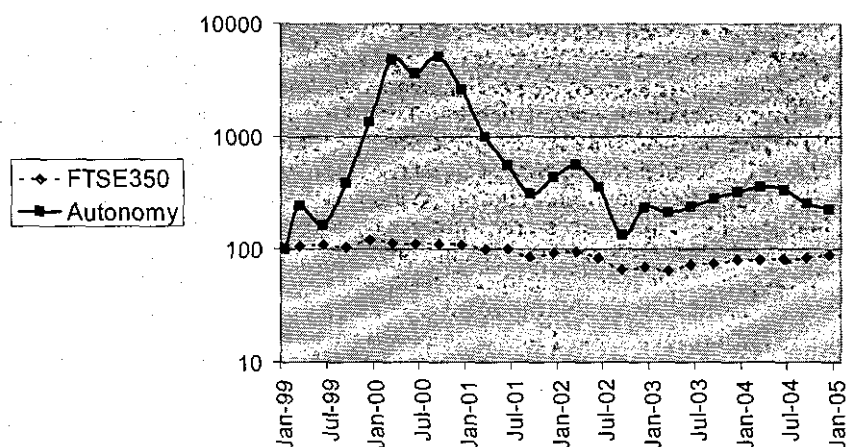
Dr. Lynch and Mr. Gaunt have also entered into part-time employment agreements with Neurodynamics Limited. Each retain their earnings from Neurodynamics Limited, which on an annual basis are immaterial. Their Autonomy service agreements limit their services to Neurodynamics to a maximum of one quarter of each of their total monthly working time, which to date in practice has been immaterial. In accordance with common practice amongst the company's peers, Dr. Lynch may be entitled to a performance bonus for 2004 of up to £50,000 based on revenue and earnings targets for 2004. Mr. Hussain's employment agreement, dated 27 June 2001, provides for his employment as Chief Financial Officer, at a salary of £135,000 per annum. Each are also entitled to current benefits generally made available to all employees and any fees or remuneration he is entitled to as a director of Autonomy. Each of these agreements has no fixed term and can be terminated by either party on six months' notice, or payment of six months' salary in lieu of notice. For a fixed period following the termination of employment, each of Dr. Lynch and Messrs. Gaunt and 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, Messrs. Ariko and Perle are each paid an annual fee of \$25,000, and Apax Partners & Co. Ventures Ltd., on behalf of Mr. McMonigall, is paid an annual fee of £10,000 for his services as a director. Either party to each of these letters may terminate the appointment upon three months' notice or payment in lieu of notice.

Details of Directors' service contracts are available on the company's website. No Director is entitled to any automatic payment by virtue of a change in control of the company or for other termination. Directors' remuneration is not linked to share price performance.

### Performance Graph

The accompanying graph sets forth the change in the total shareholder return for the last five years of a holding of the company's shares against the corresponding change in a hypothetical holding of shares in the FTSE350 Index, rebased to zero on a logarithmic scale. This index was selected as it represents a broad equity market index in which similar companies are constituent members.



## Remuneration Report (continued)

### AUDITED REMUNERATION INFORMATION

#### Directors' Remuneration

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

	Salary £'000	Benefits In Kind(1) £'000	Bonuses £'000	Total 2004 £'000	Total 2003 £'000
<b>Executive Directors</b>					
Dr. Michael R. Lynch.....	100,000	45,367	—	145,367	120,894
Richard G. Gaunt.....	54,000	6,479	—	60,479	83,720
Sushovan Hussain (1).....	135,000	5,493	15,000	155,493	91,954
<b>Non-executive Directors</b>					
Barry M. Ariko (2).....	13,640	—	—	13,640	14,029
John P. McMonigall.....	10,000	—	—	10,000	10,000
Mark Opzoomer (4).....	11,376	—	—	11,376	8,183
Richard N. Perle.....	13,640	—	—	13,640	—
	<u>337,656</u>	<u>57,339</u>	<u>15,000</u>	<u>409,995</u>	<u>328,780</u>

- (1) Executive Directors are provided with company cars and Dr. Lynch was entitled to a spousal travel allowance of up to £30,000 in 2003.
- (2) Mr. Hussain was appointed to the Board on 1 June 2003, and details of his remuneration for 2003 are given for the period from 1 June 2003 through 31 December 2003. Mr. Hussain is eligible for a performance bonus of up to £5,000 per calendar quarter for meeting company revenue and earnings targets.
- (3) Messrs. Ariko and Perle's fees of \$25,000 per annum are payable in U.S. dollars, and the amounts have been translated into sterling in the above table.
- (4) Mr Opzoomer served as a Non-executive Director until 20 October 2004.

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

#### Directors and Their Interests

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

	Ordinary shares of 1/3p each as of 31 December	
	2004	2003
<b>Executive</b>		
Dr. Michael R. Lynch.....	18,821,532	18,821,532
Richard G. Gaunt.....	2,456,240	2,456,240
Sushovan Hussain.....	—	—
<b>Non-executive Directors</b>		
Barry M. Ariko.....	—	—
John P. McMonigall.....	—	—
Mark Opzoomer.....	—	—
Richard N. Perle.....	—	—

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

## Remuneration Report (continued)

Details of share options granted on a performance basis and held by executive directors are set out below. No executive directors' share options were cancelled or lapsed during the year. Vesting and exercise of options is subject to continued employment. The principals underlying option grants are set forth on page 8. No changes were made during the year to the terms of any option.

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

- (1) 4 year vesting/25% on 1st anniv./balance in equal quarterly instalments. Vested options exercisable between 30/7/02 and 29/7/09.
- (2) 4 year vesting/25% on 1st anniv./balance in equal quarterly instalments. Vested options exercisable between 1/11/02 and 31/10/09.
- (3) 4 year vesting/25% on 1st anniv./balance in equal quarterly instalments. Vested options exercisable between 15/3/03 and 14/3/10.
- (4) 4 year vesting/25% on 1st anniv./balance in equal quarterly instalments. Vested options exercisable between 2/5/03 and 1/5/10.
- (5) 4 year vesting/25% on 1st anniv./balance in equal quarterly instalments. Vested options exercisable between 11/7/03 and 10/7/10.
- (6) 4 year vesting/25% on 1st anniv./balance in equal quarterly instalments. Vested options exercisable between 19/7/03 and 18/7/10.
- (7) 3 year vesting/1/6th on first anniv./balance in equal quarterly instalments. Vested options exercisable between 6/8/04 and 5/2/10.
- (8) 3 year vesting/1/6th on first anniv./balance in equal quarterly instalments. Vested options exercisable between 21/5/04 and 20/11/10.
- (9) 3 year vesting/1/6th on first anniv./balance in equal quarterly instalments. Vested options exercisable between 10/11/05 and 9/5/11.
- (10) 3 year vesting/1/6th on first anniv./balance in equal quarterly instalments. Vested options exercisable between 17/6/05 and 16/12/11.

As of the date of this report, no non-executive directors held share options. The non-executive directors have voluntarily agreed to cancel their share options to re-affirm their independence. The board does not intend to grant further 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 2004, was £1.68 per ordinary share, and the range during the year ended 31 December 2004, was from £1.49 to £3.20.


### Long-term incentive plans

The group does not maintain any long term incentive plans.

### Pension entitlements

Directors do not have pension, retirement or similar entitlements.

By order of the Board,



Andrew M Kanter  
Company Secretary

26 April 2005

## Corporate, Social and Environmental Responsibility

The company endeavours to be honest and fair in its relationships with customers and suppliers and to be a good corporate citizen respecting the laws of the countries in which the company operates. While the company is accountable to its shareholders, the company also endeavours to take into account the interests of all of the company's stakeholders, including its employees, customers and suppliers, and the local communities and environments in which the operates.

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

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

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

### Employment Policies

Autonomy employs over 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 and does not tolerate harassment of or discrimination against its staff. The company's priorities are:

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

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

### Environmental Policies

It is the company's policy to ensure, by encouraging environmental best practice in the business, that its operations have as little environmental impact as is consistent with its business needs. The effect on the environment of the company's activities are monitored, where appropriate, with regard to the low overall environmental impact of its primary activities as a software publisher. As a developer of software the company has no manufacturing facilities and its premises are composed exclusively of offices. Staff make use of computers to generate intellectual property. This involves neither hazardous substances nor complex waste emissions. With the exception of training and any professional services, almost all of the company's sales comprise software that are 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 have commenced in 2004. 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 and San Francisco offices facilitate greener commuting, and the extensive provision of

## Corporate, Social and Environmental Responsibility (continued)

telephone and video conferencing equipment offer an alternative to international travel, where appropriate. The company's environmental policy is published on its website.

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

By order of the Board,

A handwritten signature in black ink, appearing to read 'A M Kanter', followed by a long horizontal line and a final flourish.

Andrew M Kanter  
Company Secretary

26 April 2005

# **Independent Auditors' Report**

## **To the members of Autonomy Corporation plc:**

We have audited the financial statements of Autonomy Corporation Plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes numbered 1 to 23.

These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' 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**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 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 directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards 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 described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 described as having been 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 described as having been audited.

## Auditors' Report (continued)

### Opinion

In our opinion

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
Cambridge

Dated 26 April 2005



# **Consolidated Profit and Loss Account** **For the year ended 31 December 2004**

	Notes	2004 £'000	2003 £'000
<b>Turnover</b> .....	2	35,337	33,465
<b>Cost of sales</b> .....		(1,807)	(1,375)
<b>Gross profit</b> .....		33,530	32,090
<b>Distribution costs</b> .....		(19,514)	(18,345)
<b>Administrative expenses</b> .....			
Research and development costs .....		(8,957)	(8,218)
Other administrative expenses .....		(5,061)	(5,369)
Foreign exchange gains .....		29	465
<b>Total administrative expenses</b> .....		(13,989)	(13,122)
<b>Group operating profit</b> .....	4	27	623
<b>Share of associate's operating (loss)</b> .....		—	(86)
<b>Total operating profit</b> .....		27	537
<b>Interest receivable</b> .....	3	1,971	2,304
<b>Profit on ordinary activities before taxation</b> .....	2	1,998	2,841
<b>Tax on profit on ordinary activities</b> .....	6	(702)	2,572
<b>Profit on ordinary activities after taxation</b> .....		1,296	5,413
<b>Equity minority interests</b> .....		—	38
<b>Profit for the financial year, being retained profit for the year</b> .....	16	1,296	5,451
<b>Earnings per share</b>			
- basic .....	7	1p	5p
- diluted .....	7	1p	5p

A statement of movements on reserves is given in note 16.

There are no discontinued operations.

The Group has not separately disclosed the results of acquisitions see note 23.

## **Consolidated Statement of Total Recognised Gains and Losses** **For the year ended 31 December 2004**

	2004 £'000	2003 £'000
<b>Profit for the financial year</b>		
— Group .....	1,296	5,537
— Associate .....	—	(86)
<b>Profit for the financial year attributable to members of the parent company</b> .....	1,296	5,451
<b>Exchange difference on retranslation of net assets of subsidiary undertakings</b> .....	(1,405)	(1,450)
<b>Total recognised gains and losses relating to the year</b> .....	(109)	4,001

**Consolidated Balance Sheet**  
**31 December 2004**

	Notes	2004 £'000	2003* £'000
<b>Fixed assets</b>			
Development costs and software .....	8	1,005	505
Goodwill .....	9	12,019	15,472
Intangible assets total .....		13,024	15,977
Tangible assets .....	10	1,822	1,202
Investments .....	11	1,221	1,213
		16,067	18,392
<b>Current assets</b>			
Debtors .....	12	15,752	18,381
Cash at bank and in hand and short term deposits .....		55,431	57,492
		71,183	75,873
<b>Creditors:</b>			
Amounts falling due within one year .....	14	(6,304)	(8,440)
<b>Net current assets</b> .....		64,879	67,433
<b>Total assets less current liabilities, being net assets</b> .....		80,946	85,825
<b>Capital and reserves</b>			
Called-up share capital .....	15	359	368
Share premium account .....	16	69,540	68,558
Capital redemption reserve .....	16	68	58
ESOP reserve .....	16	(1,064)	(1,064)
Profit and loss account .....	16	12,043	17,905
<b>Equity shareholders' funds</b> .....	17	80,946	85,825

\* See Note 11(a) regarding reclassifications between 2003 and 2004 for comparability purposes.

**Company Balance Sheet**  
**31 December 2004**

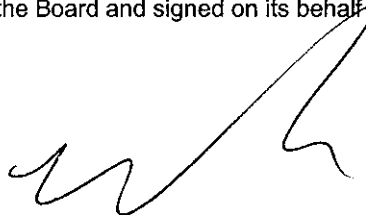
	Notes	2004 £'000	2003* £'000
<b>Fixed assets</b>			
Software .....	8	152	394
Investments .....	11	29,233	28,829
		<u>29,385</u>	<u>29,223</u>
<b>Current assets</b>			
Debtors: Amounts falling due within one year .....	12	491	294
Debtors: Amounts falling due after more than one year .....	12	23,474	21,461
Cash at bank and in hand and short term deposits .....		37,340	38,322
		<u>61,305</u>	<u>60,077</u>
<b>Creditors:</b>			
Amounts falling due within one year .....	14	(1,465)	(530)
<b>Net current assets</b> .....		<u>59,840</u>	<u>59,547</u>
<b>Total assets less current liabilities, being net assets</b> .....		<u>89,225</u>	<u>88,770</u>
<b>Capital and reserves</b>			
Called-up share capital .....	15	359	368
Share premium account .....	16	69,540	68,558
Capital redemption reserve .....	16	68	58
ESOP reserve .....	16	(1,064)	(1,064)
Profit and loss account .....	16	20,322	20,850
<b>Equity shareholders' funds</b> .....		<u>89,225</u>	<u>88,770</u>

See Note 11(a) regarding reclassifications between 2003 and 2004 for comparability purposes.

The financial statements were approved by the Board and signed on its behalf by:



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



26 April 2005

**Consolidated Cash Flow Statement**  
**For the year ended 31 December 2004**

	Notes	2004 £'000	2003 £'000
<b>Net cash inflow (outflow) from operating activities</b> .....	18	4,381	(4,307)
<b>Returns on investments and servicing of finance</b>			
Interest received .....		1,778	2,304
<b>Taxation</b>			
UK corporation tax paid .....		76	(770)
Foreign tax paid .....		(106)	(230)
		(30)	(1,000)
<b>Capital expenditure and financial investment</b>			
Purchase of intangible fixed assets .....		(831)	(265)
Purchase of tangible fixed assets .....		(1,806)	(477)
Purchase of other investments .....		(200)	(351)
Purchase of own shares .....		—	(300)
<b>Net cash outflow from investing activities</b> .....		(2,837)	(1,393)
<b>Acquisitions</b>			
Purchase of subsidiaries, net of cash acquired of £0.2 million (2003: £8.2 million) .....		(18)	(9,390)
<b>Net cash inflow (outflow) before management of liquid resources and financing</b> .....		3,274	(13,786)
<b>Management of liquid resources</b>			
Cash withdrawn from short term deposits .....	19	10,480	31,032
<b>Financing</b>			
Shares purchased for cancellation .....		(5,752)	(20,248)
Issue of ordinary share capital .....		981	263
<b>Net cash outflow from financing</b> .....		(4,771)	(19,985)
<b>Increase (decrease) in cash in the year</b> .....	19	8,983	(2,739)

# Notes to Financial Statements

## 1 Accounting policies

A summary of the principal group accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

### a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

### b) Basis of consolidation

The group financial statements consolidate the financial statements of Autonomy Corporation plc and all its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method with goodwill, representing the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, capitalised and amortised on a straight line basis over its useful economic life, subject to a maximum of twenty years. Provision is made for any impairment.

### c) Intangible assets and research and development

Software licences are capitalised at cost and depreciated in equal monthly instalments over a period of three years which is their estimated useful economic life. Provision is made for any impairment.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

### d) Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary or associate is subsequently closed or sold, any goodwill arising on acquisition that has not been taken to the profit and loss account is taken into account in determining the profit or loss on sale or closure.

### e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	-	over 3 years
Fixtures, fittings and equipment	-	over 4 years
Computer equipment	-	over 3 years
Motor vehicles	-	over 3 years

Residual value is calculated on prices prevailing at the date of acquisition.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

### f) Investments

Fixed asset investments are shown at cost less provision for any impairment.

### g) Associates

In the group financial statements, investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the group's share of associate's profits or losses while the group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

## Notes to Financial Statements (continued)

### 1 Accounting policies (continued)

#### i) Taxation

Corporation tax payable is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date and will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### j) Revenue recognition

The group generates revenues from licensing the rights to use its software products directly to end-users and indirectly through sub-licence fees from resellers. The group also generates revenues from sales of consulting, customer support and training services performed for customers that licence its products.

Revenues from software licence agreements are recognised where there is persuasive evidence of an agreement with a customer, 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 recognised on contracts with credit terms of up to one year providing that the customer passes defined credit-worthiness checks. If significant post-delivery obligations exist or if a sale is subject to customer acceptance, revenues are deferred until no significant obligations remain or acceptance has occurred.

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

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 licence fee at their fair market value based on the value established by independent sale of the customer support services to customers. Consulting revenues are primarily related to implementation services performed on a time and materials basis under separable service arrangements related to the installation of the group's software products.

Revenues from consulting and training services are recognised as services are performed. If a transaction includes both licence and service elements, licence fee revenue is recognised upon shipment of the software, provided services do not include significant customisation or modification of the base product and the payment terms for licences are not subject to acceptance criteria. In cases where licence fee payments are contingent upon the acceptance of services, revenues from both the licence and the service elements are deferred until the acceptance criteria are met. Cost of licence revenues includes the cost of royalties due on third party licences, cost of product media, product duplication and manuals. Deferred revenues primarily relate to customer support fees, which have been paid by the customer prior to the performance of these services. Deferred revenue is generally recognised over a period of one to three years.

## Notes to Financial Statements (continued)

### 1 Accounting policies (continued)

#### k) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

#### l) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term even if payments are not made on such a basis.

#### m) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves.

### 2 Segment information

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

Geographical segments	2004 £'000	2003 £'000
Turnover by origin:		
Europe .....	15,217	15,547
United States .....	20,120	17,918
	<u>35,337</u>	<u>33,465</u>
Turnover by destination:		
Europe .....	16,509	13,705
United States .....	17,756	17,535
Other .....	1,072	2,225
	<u>35,337</u>	<u>33,465</u>
Profit/(loss) on ordinary activities before taxation:		
Europe .....	(2,117)	(4,161)
United States .....	2,144	4,698
Net interest .....	1,971	2,304
	<u>1,998</u>	<u>2,841</u>
Net assets (liabilities):		
Europe .....	27,372	14,123
United States .....	(1,857)	14,210
Cash .....	55,431	57,492
	<u>80,946</u>	<u>85,825</u>

All turnover derives from a single activity, the sale of software and related services.

### 3 Interest receivable

	2004 £'000	2003 £'000
Income from cash and short-term deposits .....	<u>1,971</u>	<u>2,304</u>

## Notes to Financial Statements (continued)

### 4 Operating Profit

Operating profit is stated after charging / (crediting):

	2004 £'000	2003 £'000
Depreciation of tangible fixed assets .....	1,170	546
Amortisation of software licences.....	331	281
Amortisation of goodwill.....	3,166	1,359
Operating lease rentals		
- plant and machinery .....	128	205
- land and buildings.....	1,842	2,283
Rental income.....	(313)	(313)
Auditors' remuneration		
- audit services.....	176	171
- non-audit services.....	154	97
Research and development – current year expenditure .....	8,957	8,218
Staff costs (see note 5).....	13,001	13,509

In 2004 non-audit fees were £154,000 (2003 - £97,000), and primarily related reviews of the Company quarterly financial results, as well as tax returns, VAT returns and tax advisory work but no other advisory work (2003 - £8,000).

### 5 Staff costs

Particulars of employees (including executive directors) are shown below:

	2004 £'000	2003 £'000
Employee costs during the year amounted to:		
Wages and salaries .....	11,302	12,267
Social security costs .....	1,699	1,242
	13,001	13,509

The average monthly number of persons employed by the group during the year was as follows:

	2004	2003
Administrative and management .....	28	28
Software development .....	98	90
Selling and marketing .....	93	93
	219	211

The disclosure of individual directors' remuneration and share options required by the Companies Act 1985 and those specified for audit by the Listing Rules of the Financial Services Authority are shown in the Remuneration Committee Report on pages 9 and 10 and form part of these financial statements.

### 6 Tax on profit on ordinary activities

#### a) Tax on profit on ordinary activities

The tax charge (credit) comprises:

	2004 £'000	2003 £'000
Current Tax		
U.K. – Corporation tax.....	611	(566)
U.K. – Amount overprovided in respect of prior year.....	—	(279)
Foreign tax.....	203	357
Total current tax.....	814	(488)
Deferred tax		
U.K. deferred tax.....	332	(1,664)
Overseas deferred tax .....	(444)	(420)
Group deferred tax.....	(112)	(2,084)
Tax charge (credit) on profit on ordinary activities .....	702	(2,572)



## Notes to Financial Statements (continued)

### 6 Tax on profit on ordinary activities (continued)

#### a) Tax on profit on ordinary activities (continued)

The deferred tax credit in the year arises predominantly from overseas trading losses.

#### b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2003 – 30%). The differences are reconciled below:

The tax charge/(credit) comprises:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax .....	1,998	2,841
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 – 30%) .....	599	852
Expenses not deductible for tax purposes .....	861	535
Decelerated/accelerated capital allowances .....	(48)	27
Short term timing differences .....	263	8
Losses arising in previous years offset in current year .....	(43)	(237)
Higher taxes on overseas earnings .....	71	48
Research and development credits .....	(150)	(71)
State taxation paid in the U.S. ....	—	72
Write-down of investments not allowable for tax purposes .....	107	—
Deduction for exercise of options .....	(432)	(2,958)
Increase in losses .....	(301)	1,515
Share premium adjustments .....	(113)	—
Adjustments in respect of previous years .....	—	(279)
Total current tax .....	814	(488)

#### c) Factors that may affect future tax charges

The group has unprovided deferred tax assets of approximately £12.9 million, predominantly arising from tax losses brought forward, that are available to offset against future taxable profits (subject to UK and US tax authority approval). These assets would be recovered if the group generates sufficient taxable profits in the appropriate tax jurisdictions.

Tax losses arising in the United States must be utilised by 2013.

### 7 Earnings per share

The calculations of earnings per share are based on the following profits and number of shares:

	2004 £'000	2003 £'000
Profit for the financial year .....	1,296	5,451
Weighted basic average number of shares (thousand) .....	109,799	110,102
Dilutive potential ordinary shares: employee share options .....	1,733	1,440
Weighted fully diluted average number of shares (thousand) .....	111,532	111,542

## Notes to Financial Statements (continued)

### 8 Development costs and software licences

	Development Costs £'000	Software £'000	Total £'000
<b>Group</b>			
<b>Cost</b>			
At 1 January 2004.....	—	3,989	3,989
Additions.....	637	194	831
At 31 December 2004.....	637	4,183	4,820
<b>Amortization</b>			
At 1 January 2004.....	—	3,484	3,484
Charge for the year.....	—	331	331
At 31 December 2004.....	—	3,815	3,815
<b>Net book value</b>			
At 31 December 2003.....	—	505	505
At 31 December 2004.....	637	368	1,005

	Software £'000
<b>Company</b>	
<b>Cost</b>	
At 1 January 2004 and 31 December 2004 .....	3,251
<b>Amortisation</b>	
At 1 January 2004.....	2,857
Charge for the year.....	242
At 31 December 2004.....	3,099
<b>Net book value</b>	
At 31 December 2003.....	394
At 31 December 2004.....	152

Development costs have been capitalised in accordance with SSAP 13 "Accounting for Research and Development" and are therefore not treated for dividend purposes as a realised loss. The costs are related to the development of the next generation of our core IDOL Server product.

### 9 Goodwill

	£'000
<b>Group</b>	
<b>Cost</b>	
At 1 January 2004.....	17,803
Additions.....	72
Exchange.....	(130)
Disposals.....	(254)
At 31 December 2004.....	17,491
<b>Amortisation</b>	
At 1 January 2004.....	2,331
Charge for the year.....	3,166
Exchange.....	(9)
Disposals.....	(16)
At 31 December 2004.....	5,472
<b>Net book value</b>	
At 31 December 2003.....	15,472
At 31 December 2004.....	12,019

Goodwill arising in respect of the acquisitions of SoftSound Limited, Autonomy Nordic AS, Dremedia Limited and Virage, Inc. is being amortised over their useful economic lives of 3, 10, 5 and 5 years respectively. See note 23 for further detail on individual acquisitions.

## Notes to Financial Statements (continued)

### 10 Tangible fixed assets

Group	Leasehold improvements	Fixtures, fittings and equipment	Computer equipment	Motor vehicles	Total
Cost	£'000	£'000	£'000	£'000	£'000
At 1 January 2004.....	825	521	2,012	5	3,363
Additions .....	174	303	1,329	—	1,806
Foreign exchange difference .....	(6)	(8)	(63)	—	(77)
At 31 December 2004 .....	993	816	3,278	5	5,092
<b>Depreciation</b>					
At 1 January 2004.....	211	383	1,562	5	2,161
Charge for the year .....	63	296	811	—	1,170
Foreign exchange difference .....	(6)	(4)	(51)	—	(61)
At 31 December 2004 .....	268	675	2,322	5	3,270
<b>Net book value</b>					
At 31 December 2003 .....	614	138	450	—	1,202
At 31 December 2004 .....	725	141	956	—	1,822

The company had no tangible fixed assets during 2004 (2003 - £Nil).

### 11 Fixed asset investments

#### a) Fixed asset investments

Group	Unlisted investments	Own shares	Total
Other investments	£'000	£'000	£'000
Cost at 1 January 2004 as previously stated .....	1,796	1,064	2,860
Prior year adjustment (see Note 16) .....	—	(1,064)	(1,064)
Cost at 1 January 2004 as restated .....	1,796	—	1,796
Additions .....	200	—	200
Exchange .....	(42)	—	(42)
Cost at 31 December 2004 .....	1,954	—	1,954
<b>Provisions and amortization</b>			
At 1 January 2004 .....	583	—	583
Charge .....	176	—	176
Exchange .....	(26)	—	(26)
At 31 December 2004 .....	732	—	732
<b>Net book value</b>			
At 31 December 2003 as restated .....	1,212	—	1,212
At 31 December 2004 .....	1,221	—	1,221

Company	Unlisted trade investments	Subsidiary undertakings	Own shares	Total
	£'000	£'000	£'000	£'000
Cost at 1 January 2004 as previously stated .....	—	28,829	1,064	29,893
Prior year adjustment (see Note 16) .....	—	—	(1,064)	(1,064)
Cost at 1 January 2004 as restated .....	—	28,829	—	28,829
Additions .....	200	213	—	413
Disposals .....	—	(9)	—	(9)
Cost at 31 December 2004 .....	200	29,033	—	29,233

## Notes to Financial Statements (continued)

### 11 Fixed asset investments (continued)

#### a) Fixed asset investments (continued)

	Unlisted investments £'000	Own shares £'000	Total £'000
<b>Net book value</b>			
At 31 December 2003 as restated .....	28,829	—	28,829
At 31 December 2004 .....	29,233	—	29,233

Additions include £0.2 million for NCorp (see Note 23).

The group has an Employee Benefit Trust (EBT), established for the purpose of satisfying employee share option exercises, under which the EBT can acquire ordinary shares in the company. At 31 December 2004, 877,538 (2003 – 877,538) ordinary shares in Autonomy Corporation plc were held in the trust, purchased for a total consideration of £1,063,971. The value of the shares held in the EBT has been transferred to the ESOP reserve. See Note 16.

#### b) Other investments – unlisted trade investments

The parent company and the group have investments in the following subsidiary undertakings, associates and other investments which principally affect the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Name	Principal activity	Class of holding	Country of incorporation	Holding %
Autonomy Systems Limited	Software development and distribution	Ordinary	England and Wales	100%
Autonomy Inc.	Software development and distribution	Ordinary	United States	100%
Agentworld Inc.	Dormant	Ordinary	United States	100%
Autonomy Nordic AS	Software distribution	Ordinary	Norway	100%
Dremedia Limited	Software development	Ordinary	England and Wales	100%
SoftSound Limited	Software development	Ordinary and preference	England and Wales	100%
Virage, Inc.	Software development and distribution	Ordinary	United States	100%
NCorp Limited	Software development and distribution	Ordinary and preference	England and Wales	100%

Agentworld Inc. was incorporated on 29 January 1997. It has not traded to date.

### 12 Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors .....	10,602	10,507	—	—
Other debtors .....	1,387	1,250	175	79
Corporation tax .....	—	1,732	—	50
Prepayments and accrued income .....	375	2,177	316	165
Deferred tax (see note 13) .....	3,164	2,431	—	—
	15,528	18,097	491	294
<b>Amounts falling due after more than one year:</b>				
Amounts owed by subsidiary undertakings .....	—	—	21,384	21,340
Deferred tax (see note 13) .....	224	284	2,090	121
	224	284	23,474	21,461
<b>Total debtors .....</b>	<b>15,752</b>	<b>18,381</b>	<b>23,965</b>	<b>21,755</b>

## Notes to Financial Statements (continued)

### 13 Deferred tax

The deferred tax assets included in the balance sheet are as follows:

	2004	2003
	£'000	£'000
<b>Group</b>		
Accelerated capital allowances .....	65	284
Other timing differences .....	(719)	555
Option losses .....	4,691	1,515
Tax losses available .....	(649)	361
	<u>3,388</u>	<u>2,715</u>
Amounts due within one year .....	3,164	2,431
Amounts due after more than one year .....	224	284
	<u>3,388</u>	<u>2,715</u>
<b>Company</b>		
Accelerated capital allowances .....	38	121
Tax losses available .....	2,052	—
	<u>2,090</u>	<u>121</u>

The deferred tax asset has been recognised as it is expected to be recovered against forecast future taxable profits.

	2004	2003
	£'000	£'000
<b>Group</b>		
At 1 January .....	2,715	631
Credit for the year .....	673	2,084
At 31 December .....	<u>3,388</u>	<u>2,715</u>
<b>Company</b>		
At 1 January .....	121	146
Credit (Charge) for the year .....	1,969	(25)
At 31 December .....	<u>2,090</u>	<u>121</u>

### 14 Creditors: Amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Trade creditors .....	1,014	1,484	239	254
Other taxation and social security costs .....	—	696	930	—
Other creditors .....	—	20	2	24
Accruals and deferred income .....	5,290	6,240	294	252
	<u>6,304</u>	<u>8,440</u>	<u>1,465</u>	<u>530</u>

### 15 Called-up share capital

	2004	2003
	£'000	£'000
<i>Authorised</i>		
600,000,000 ordinary shares of 1/3p each .....	<u>2,000</u>	<u>2,000</u>
<i>Allotted, called-up and fully paid</i>		
108,110,108 ordinary shares of 1/3p each		
(2003 – 110,575,160 ordinary shares of 1/3p each) .....	<u>359</u>	<u>368</u>

During 2004 the Company issued 626,460 (2003 – 298,149) 1/3p ordinary shares with a total nominal value of £2,088 (2003 – £994) pursuant to the exercise of share options raising proceeds of £982,000 (2003 – £263,000). The company bought back and cancelled 3,091,512 (2003 – 12,332,084) 1/3p ordinary shares with a total nominal value of £10,305 (2003 – £42,000) for a total consideration including duties and commission of £5,752,000 (2003 – £20,248,000).

## Notes to Financial Statements (continued)

### 15 Called-up share capital (continued)

Outstanding options to subscribe for ordinary shares of the company are as follows:

Range of Exercise Price (\$)	Number Outstanding as of 31 December 2004	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number Exercisable as of 31 December 2004	Weighted Average Exercise Price of Exercisable Options (\$)
0.88 – 2.49	456,269	1.83	1.51	407,991	1.43
2.50 – 2.99	989,734	4.97	2.54	445,716	2.54
3.00 – 3.99	1,468,751	6.69	3.28	64,702	3.73
4.00 – 4.99	1,575,751	5.87	4.24	270,294	4.26
5.00 – 9.99	1,019,491	4.28	6.17	483,373	6.55
10.00 – 70.00	901,587	2.56	36.13	854,336	36.72
<b>Total</b>	<b>6,411,583</b>	<b>4.89</b>	<b>8.27</b>	<b>2,526,412</b>	<b>14.72</b>

### 16 Reserves

#### a) Movements

	Share premium account £'000	Profit and loss account £'000	ESOP reserve £'000	Capital redemption reserve £'000	Total £'000
<b>Group</b>					
At 1 January 2004 as previously stated ....	68,558	17,905	—	58	86,521
Prior year adjustment (see below) .....	—	—	(1,064)	—	(1,064)
At 1 January 2004 (as restated).....	68,558	17,905	(1,064)	58	85,457
Share issues .....	982	—	—	—	982
Retained profit for year .....	—	1,296	—	—	1,296
Shares repurchased and cancelled.....	—	(5,743)	—	—	(5,743)
Transfer to capital redemption reserve .....	—	(10)	—	10	—
Currency translation differences on foreign currency net investments .....	—	(1,405)	—	—	(1,405)
At 31 December 2004 .....	69,540	12,043	(1,064)	68	80,587
<b>Company</b>					
At 1 January 2004 as previously stated ....	68,558	20,850	—	58	89,466
Prior year adjustment (see below) .....	—	—	(1,064)	—	(1,064)
At 1 January 2004.....	68,558	20,850	(1,064)	58	88,402
Share issues .....	982	—	—	—	982
Retained profit for year .....	—	5,225	—	—	5,225
Shares repurchased and cancelled.....	—	(5,743)	—	—	(5,743)
Transfer to capital redemption reserve .....	—	(10)	—	10	—
At 31 December 2004 .....	69,540	20,322	(1,064)	68	88,866

The profit for the financial year dealt with in the financial statements of Autonomy Corporation plc was £5,225,000 (2003 - £4,667,000). As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of Autonomy Corporation plc.

#### b) Prior year adjustment

For the year ended 31 December 2004 the Group has implemented UITF Abstract 38 (Accounting for ESOP Trusts), which amended UITF Abstract 17 (Employee share schemes (revised 2000)). As a result of implementing these new standards, results for the year ended 31 December 2003 have been restated and the Company's investment in its own shares has been reclassified from fixed assets to reserves. The effect of the change is as follows:

	2003 £'000
Investment in own shares disclosed in reserves .....	1,064
Reduction in fixed asset investment and change in net assets .....	(1,064)

## Notes to Financial Statements (continued)

### 17 Reconciliation of movements in group shareholders' funds

	Group	
	2004 £'000	2003 £'000
Retained profit for the year .....	1,296	5,451
Exchange difference on retranslations of net assets of subsidiary undertakings .....	(1,405)	(1,450)
Total recognised gains and losses .....	(109)	4,001
Share issues .....	984	264
EBT purchase of shares .....	—	(300)
Shares repurchased and cancelled .....	(5,754)	(20,248)
Net reduction to shareholders' funds .....	(4,879)	(16,283)
Opening shareholders' funds as restated .....	85,825	102,108
Closing shareholders' funds as restated .....	80,946	85,825

### 18 Reconciliation of operating profit to net cash inflow (outflow) from operating activities

	Group	
	2004 £'000	2003 £'000
Group operating profit .....	27	623
Depreciation charge .....	1,170	546
Amortisation of software licences .....	331	281
Amortisation of goodwill .....	3,166	1,359
Decrease (increase) in debtors .....	2,623	(1,719)
Decrease in creditors .....	(2,936)	(5,397)
Net cash inflow (outflow) from operating activities .....	4,381	(4,307)

### 19 Analysis and reconciliation of net funds

	At 1 January 2004 £'000	Cashflow £'000	Exchange movement £'000	At 31 December 2004 £'000
Cash at bank and in hand .....	8,829	8,983	(564)	17,248
Short term deposits .....	48,663	(10,480)	—	38,183
Net funds .....	57,492	(1,497)	(564)	55,431

Reconciliation of net cash flow to movement in net funds:

	2004 £'000	2003 £'000
Increase (decrease) in cash in the year .....	8,983	(2,739)
Cash outflow from movement in liquid resources .....	(10,480)	(31,032)
Change in net funds resulting from cashflow .....	(1,497)	(33,771)
Exchange movement .....	(564)	(647)
Movement in net funds in year .....	(2,061)	(34,418)
Net funds at 1 January .....	57,492	91,910
Net funds at 31 December .....	55,431	57,492

### 20 Financial instruments

The disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard No. 13 "Derivatives and Other Financial Instruments: Disclosures". The group's financial instruments comprise cash and liquid resources and various items such as trade debtors, prepayments, trade creditors and accruals, which arise directly from the group's operations. It is, and has been throughout the period under review, the group's policy that no speculative trading in financial instruments shall be undertaken. Certain financial assets such as investments in subsidiaries are excluded from the scope of these disclosures. As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

## Notes to Financial Statements (continued)

### 20 Financial instruments (continued)

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 1999. The group has not used derivative instruments to manage its foreign exchange exposure.

#### a) Interest rate risk

The group is currently funded by equity and interests in short term deposits. The group has no financial assets at 31 December 2004 other than Sterling, U.S. Dollar and Euro deposits of £38,466,000 (2003 - £40,802,000), £15,125,000 (2003 - £7,332,000) and £1,840,000 (2003 - £529,000) respectively which are part of the financing arrangements of the group. The Sterling, U.S. Dollar and Euro cash deposits comprise deposits placed on the money market for periods of up to two weeks and at call. The group seeks to maximise interest receipts within these parameters.

The weighted average interest rate on the Sterling short term deposits at 31 December 2004 was 4.56% (2003 - 3.67%), on the U.S. Dollar short term deposits was 1.06% (2003 - 1.1%) and on the Euro short term deposits was 1.71% (2003 - 1.67%). The weighted average time for which the rate is fixed in respect of Sterling, Euro and U.S. Dollar deposits was 7 days (2003 - 14 days). All interest rates for deposits are fixed with the exception of a Sterling deposit of £36.1m (2003 - £33.4m) which accrues interest at the UK base rate.

#### b) Liquidity risk

The group's policy throughout the year regarding liquidity has been to maximise the return on funds placed on deposit within the constraint of minimising the associated risk by placing funds in low risk cash deposits.

#### c) Foreign exchange risk

To date, the group has not engaged in an active programme of foreign exchange risk management. Given the nature of the group's non-sterling denominated balances, the directors have not previously considered a hedging strategy to be cost effective. This situation is kept under review.

The table below shows the group's currency exposures comprising those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved. As at 31 December 2004 these exposures were as follows:

	Euro	Swedish Kronor	Norwegian Kroner	U.S. Dollar
Functional currency	£'000	£'000	£'000	£'000
Sterling.....	7,504	107	629	1,067

The exposures at 31 December 2003 for comparison purposes were as follows:

	Euro	Swedish Kronor	Australian Dollar	Norwegian Kroner	U.S. Dollar
Functional currency	£'000	£'000	£'000	£'000	£'000
Sterling.....	5,205	365	111	830	1,770

The group held no financial liabilities at the year end other than short term creditors, such as trade creditors and accruals.

#### d) Borrowing facilities

The group has no borrowing facilities.

#### e) Fair value of financial assets

The directors consider there to be no material difference between the book value and the fair value of the group's financial instruments at the balance sheet date.



## Notes to Financial Statements (continued)

### 20 Financial instruments (continued)

#### f) Market price risk

The group's exposure to market price risk comprises interest rate exposure. Group funds are invested in money market cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return. In practice, this has meant that no deposits were made with a maturity greater than 14 days during the year.

### 21 Guarantees and other financial commitments

#### a) Capital commitments

The group and company had no capital commitments at the end of the year (2003 - £Nil).

#### b) Lease commitments

The group leases land and buildings and motor cars on short term operating leases.

The minimum annual rentals under the foregoing operating leases are as follows:

	2004		2003	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
<b>Group</b>				
Operating leases which expire:				
- within one year	225	85	1,749	153
- between two and five years	—	72	231	61
- greater than five years	1,258	—	934	—
	<u>1,483</u>	<u>157</u>	<u>2,914</u>	<u>214</u>

The Company did not have any lease commitments at the end of the year (2003 - £Nil).

### 22 Related party transactions

The Company incurred expenses of £48,000 (2003 - £106,163) in the year ended 31 December 2004 for software development services from Cambridge Neurodynamics Limited, and billed rent charges and recharges of other expenses to Cambridge Neurodynamics Limited of £80,000 (2003 - £70,374). At 31 December 2004, Cambridge Neurodynamics Limited owed the Company a balance of £19,000 (2003 - £20,672). At 31 December 2004, the Company owed Cambridge Neurodynamics Limited £2,000 (2003 - £Nil).

Cambridge Neurodynamics Limited is controlled by Dr. Michael R. Lynch and Apax Partners, the employer of one of our other Directors, Mr John McMonigall. Management believes that all related party transactions are conducted on a normal commercial basis.

The Company has taken advantage of the exemption in Financial Reporting Standard 8, Related Party Transactions, not to disclose transactions with other Group members, as the Company's financial statements are presented with its consolidated financial statements.

### 23 Business acquisitions

The following acquisitions have been accounted for under the acquisition method and the results of operations consolidated from the date of acquisition. The operations of all the acquired entities have effectively been merged within the Autonomy group from the acquisition dates. This has included operations such as sales, product development, administration and management and, therefore, it is not practicable to determine the post-acquisition results of the operations or cashflows of each of the acquired entities.

The Company has adopted guidance under FRS 3(16), FRS 1 Revised (45) and FRS 6(29) not to separately disclose the contribution from the acquired entities to the group results or cashflows.

## Notes to Financial Statements (continued)

### 23 Business acquisitions (continued)

On 12 August 2004, the Company acquired 100% of the equity of NHoldings Limited and its wholly-owned subsidiary NCorp Limited, providers of software for the processing of structured data. The purchase price was £213,000. The net cash purchase price was £22,000 adjusted for NHoldings' cash balance as of 12 August 2004. The acquisition has been accounted for using the purchase method of accounting and the results of these companies have been consolidated from this date. The purchase price was allocated to the assets acquired based on their estimated fair values on the acquisition date as follows:

	Book Value	Adjustments	Fair Value
	£'000	£'000	£'000
Tangible fixed assets .....	13	(8)	5
Trade debtors .....	130	(2)	128
Prepayments and other debtors.....	62	(15)	47
Cash and short term investments .....	191	—	191
Trade creditors.....	(88)	—	(88)
Accruals .....	(58)	(12)	(70)
Net assets.....	250	(37)	213
Goodwill .....			—
Satisfied by cash.....			213

The fair value exercise has resulted in the recognition of acquisition goodwill of £Nil million and £37,000 of fair value adjustments to assets principally comprised of unaccrued expenses at the date of acquisition.

The loss after tax reported by the NHoldings group for the year to 31 December 2003 was £1,246,579 and for the period 1 January 2004 until acquisition was £410,522.