ACL NETHERLANDS BV (AS SUCESSOR TO AUTONOMY CORPORATION LIMITED), HEWLETT-PACKARD VISION BV, AUTONOMY SYSTEMS LIMITED, HEWLETT-PACKARD ENTERPRISES NEW JERSEY INC.

and

MICHAEL RICHARD LYNCH
SUSHOVAN TAREQUE HUSSAIN

Joint statement of Peter Alan Holgate and Gervase MacGregor

28 January 2019

Introduction

Mr Holgate (the expert instructed on behalf of the Claimants) and Mr MacGregor (the expert instructed on behalf of the First Defendant) here present their joint statement setting out where they agree and where they disagree, with, in the latter case, a summary of the reasons.

As will be evident from their respective reports, their instructions were dissimilar and so, as a result, are the approaches taken in their reports. In particular:

1. Mr Holgate and Mr MacGregor were both instructed to consider the appropriate accounting treatment for the impugned transactions including as to their presentation in Autonomy's published information[1]. Mr Holgate was given assumptions on which to base his report; Mr MacGregor was not. Mr MacGregor reviewed certain of the witness statements served, and documents disclosed (including the working papers of Autonomy's auditors, Deloitte), in the proceedings to identify those facts he considered relevant to his analysis (noting that his review was not complete as at the time of serving his report).
2. Mr MacGregor has relied, for what he considered to be the best information about the facts of the case as understood at the Relevant Time, on the working papers of Autonomy's auditors, Deloitte. Mr Holgate has not seen these working papers.
3. Mr Holgate considered all 37 impugned VAR transactions; Mr MacGregor considered four of the 37.
4. Mr Holgate considered all four 'Other' transactions; Mr MacGregor considered two of the four.
5. Mr Holgate considered all six Reciprocal transactions; Mr MacGregor considered two of the six.

In the tables that follow, 'Holgate1' refers to Mr Holgate's first report dated 29 November 2018. 'MacGregor 1' refers to Mr MacGregor's first report dated 29 November 2018.

[1] MacGregor 1, paragraph 1.11 and Order of Mr Justice Hildyard dated 14 July 2016, paragraph 17(1).

1 Financial reporting

	Agenda Item	Agreed view	Disagreed view/further comments[2]	
			Mr Holgate's view	Mr MacGregor's view
(a)	Accounting principles applicable to Autonomy's audited financial statements and interim/ quarterly financial reporting in respect of the matters in dispute.	Autonomy was required to follow IFRS in its annual financial statements. In its interim reporting, Autonomy was required to follow the more limited requirements of IAS 34. In its quarterly reporting, Autonomy was required to follow the still more limited requirements of the Disclosure and Transparency Rules ("DTR"). The DTR does not require Autonomy to report quarterly financial information at 31 March and 30 September each year (Holgate 1, paragraph 3.47), although it did so on a voluntary basis. The information contained in the quarterly reports is generally less detailed than the information in interim reports (Holgate 1, paragraph 3.50).		I have not considered the requirements of the DTR in MacGregor 1.

[2] Generally, (a) where there is no 'Agreed view', the comments in these two columns are the disagreed views; (b) where an 'Agreed view' is stated, any comments in these two columns should be interpreted as 'Further comments'.

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<tr><td>(b)</td><td>Meaning of generally accepted accounting practice (GAAP).</td><td>For a listed company such as Autonomy, GAAP means the requirements of IFRS, including the interpretations thereof (SICs and IFRICs), the Companies Act 2006 and the UK Listing Rules.

The following non-mandatory sources are also regarded as part of GAAP: the IASB's Framework and Conceptual Framework; statements and recommendations from professional bodies; and established practice at the relevant time.</td><td>Further comment:
There are a number of places in Mr MacGregor's report where, in commenting on IFRS and the way in which it is applied, he overstates the case in my view. His comments concern: (i) the principles-based nature of IFRS; (ii) the extent of discretionary professional judgement; (iii) The wide (or broad) range of generally accepted accounting practices; (iv) how to react when there is no explicit guidance in IFRS.

I will elaborate on these points in my Supplemental Report.</td><td>In MacGregor 1 I define GAAP as 'generally accepted accounting principles' but for the avoidance of doubt I refer to this and 'generally accepted accounting practice' interchangeably.

(MacGregor 1, paragraph 1.20)</td></tr>
<tr><td>(c)</td><td>Sources of applicable accounting principles.</td><td>See (b) above.</td><td></td><td></td></tr>
<tr><td>(d)</td><td>Substance over form as understood by an accountant.</td><td>Substance can also be described as 'economic substance' or 'substance</td><td></td><td>As set out in PwC's 2009 Guidance:</td></tr>
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<tr><td></td><td></td><td>over form'. It is also described as equating to commercial reality.

Transactions should be accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

Substance is often the same as legal form, but where the two differ, it is the substance that should be followed in determining the accounting treatment of an item.</td><td></td><td>"Revenue should be recorded based on the substance, not the form, of a transaction. The substance will not only be based on the transaction's visible economic effect; it will also have to be analysed based on all the transaction's contractual terms, or the combination of the contractual terms of linked transactions. Contracts, while inherently form-driven, often provide strong evidence of the intent of the parties involved, as parties to a transaction generally protect their interests through the contract."

(MacGregor 1, paragraph 4.25 and see also</td></tr>
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	Agenda Item	Agreed view	Disagreed view/further comments[2]	
			Mr Holgate's view	Mr MacGregor's view
				MacGregor 1, paragraphs 4.29 and 4.85)
(e)	IAS 18 as the relevant accounting standard dealing with recognition of revenue.	IAS 18 'Revenue' is the relevant accounting standard dealing with recognition of revenue in financial statements under IFRS. IAS 18 is discussed in detail in our two reports. The most important parts of IAS 18 in this case is paragraphs 14 and 20, which set out the criteria for, respectively, the recognition of revenue on the sale of goods and the rendering of services. For convenience, these are reproduced as Appendix A to this joint statement. Other parts of IAS 18, including paragraphs 7, 9 to 12, 13 and 15 are also relevant in this case.		
(f)	Fair value as understood by an accountant.	Fair value is defined in IFRS as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."		

	Agenda Item	Agreed view	Disagreed view/further comments[2]	
			Mr Holgate's view	Mr MacGregor's view
		This definition is set out at paragraph 7 of IAS 18; paragraphs 9 to 12 of IAS 18 are also relevant to fair value in the measurement of revenue.		
(g)	The relevance or otherwise of hindsight to an accountant.	Financial statements are necessarily prepared, approved and audited after the relevant reporting date. For example, Autonomy's year end (annual reporting date) was 31 December and it generally approved and published its accounts towards the end of the following February (the signing date). Financial statements are based on transactions and events up to the reporting date and conditions as at the reporting date. Information coming to light between the reporting date and the signing date is taken into account only insofar as it sheds light on circumstances prevailing at the reporting date. Information coming to light in that period is disregarded insofar as it describes transactions and other events that arise after the reporting date. Information that comes to light after the signing date	A related point is that accounting for transactions should take into account information about earlier, similar transactions. For example, if it emerges prior to a signing date that a significant proportion of sales to a particular category of customer result in non-payment, it is necessary to take that information into account in deciding how to account for a current transaction, even though it might be too early to draw a conclusion (for example, that there is a bad debt) about that current transaction in isolation.	

	Agenda Item	Agreed view	Disagreed view/further comments[2]	
			Mr Holgate's view	Mr MacGregor's view
		can be taken into account only at the next reporting date.		

2 Deloitte

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(a)	What Deloitte's working papers and reports contain.		I have not seen the Deloitte working papers.	Deloitte's working papers and reports contain evidence of the contemporaneous circumstances surrounding the transactions and why Autonomy accounted for them in the way it did. They also record Deloitte's challenges to, and discussions with, Autonomy management and detailed analysis relating to the facts and judgements reached at the time. See also further comments below. (MacGregor 1, paragraph 6.14 to 6.22)

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(b)	The relevance of Deloitte's working papers to understanding the accounting treatment of individual items.		I do not consider that the Deloitte working papers or contemporaneous views or reports to Autonomy are relevant because my opinions are given on the basis of the facts I have been instructed to assume, which are or may be different from the factual position as understood by Deloitte, and the proper accounting treatment to be applied to those assumed facts is a matter within my expertise.	See my comments at 2(a) above. Deloitte's working papers contain arguably the most valuable detailed analysis relating to the facts and judgements reached at the time. (MacGregor 1, paragraph 6.19)
(c)	The relevance or otherwise of Deloitte's contemporaneous views.			Deloitte's contemporaneous views are relevant as they are based on the contemporaneous evidence available in respect of the transactions, untainted by hindsight. (MacGregor 1, paragraph 6.1 and 6.22)
(d)	The relevance of Deloitte's reporting to Autonomy.			Deloitte provided detailed reports to Autonomy's Audit

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				Committee on a quarterly basis highlighting key issues and judgements in relation to revenue recognition (particularly on the largest deals) and other matters, based on Deloitte's review and audit work as well as contemporaneous discussions with management. Deloitte also held meetings with the Audit Committee at which no Autonomy employees or executives were present. I have found these reports to be very valuable in understanding the thinking of Deloitte at each relevant point during the Relevant Period and its challenges to Autonomy

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				management during its audit and review work. The Audit Committee was independent of Autonomy management. (MacGregor 1, paragraphs 6.12 to 6.13)

3 The transactions generally

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(a)	Relevance of individual commercial facts to the accounting treatment.	The individual commercial facts relating to each transaction or item are highly relevant to its accounting treatment.		
(b)	In assessing the accounting treatment of individual transactions, is it permissible to assume that all transactions within a designated category (e.g. resellers) can be treated generically or does regard have to be had to the individual facts of each transaction?	Regard has to be had to the individual facts of each transaction.		

4 Hardware

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(a)	Was Autonomy required to disclose its hardware sales in its annual financial statements?		Yes. The reasons are: • Hardware sales were material. • Hardware sales were a new sales category and they were a significant contributor to the growth in revenue. • The margins on sales of hardware were typically very small or negative, whereas the margins on sales of software and other goods were very high (in the order of 90%). Disclosure of hardware sales was key to enabling a reader to understand the overall margins of Autonomy's business as a whole. (Holgate 1, paras 4.4-4.22)	There was no requirement under IAS 18, paragraph 35 for Autonomy to separately disclose its hardware sales from other sales of goods in its annual financial statements. In respect of IFRS 8, paragraph 32, on the basis that Autonomy's hardware sales were incidental to sales of the core software product, separate disclosure of these sales was not required. Given that IFRS 8 was a newly introduced standard in 2009, discussion of the approach applied in practice by companies

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				that also disclosed one operating segment is relevant. In the Relevant Period, other large UK companies with a single operating segment appeared equally to apply IFRS 8, paragraph 32 in a similar way to Autonomy. (MacGregor 1, paragraphs 7.59 and 7.77(a), (c) and (d))
(b)	Was it permissible for Autonomy to account for part of the costs of hardware purchases as a sales and marketing expense rather than as cost of goods sold (COGS)?		No. The reasons are: • It is clear to accountants from IAS 2 that (a) the costs of items that are sold are accounted for in COGS and (b) expenses incurred on sales and marketing activities are accounted for in sales and marketing expense. • The same point is obvious to accountants and business people	Absent any explicit requirements or guidance under IAS 2 regarding how the cost of purchasing the hardware for resale should be allocated to particular line items in the income statement, I do not consider that Autonomy's treatment of these costs was not in accordance with IAS 2.

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			from a common sense perspective. • This point is clear and is not one of those matters in accounting where there are choices or disputed theories. See further comment in para 1(b) above. (Holgate 1, paras 4.28-4.42)	The costs of purchasing hardware are included within Autonomy's consolidated income statements in the Relevant Period. As such, categorising a portion of the hardware costs as sales and marketing expenses (compared to categorising the hardware costs entirely as COGS) has no impact on net profit, where the income statement in a global sense is utilised as a measurement of pre-tax income. (MacGregor 1, paragraphs 7.79 to 7.80)
(c)	Did Autonomy adequately disclose its policies regarding accounting for the costs of hardware purchases?		No. The reasons are: • In a straightforward situation, it might not be necessary for a company to disclose its policy for	I did not consider the issue of disclosure of accounting policies regarding accounting for the costs of hardware purchases in MacGregor

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			what is included in sales and marketing expense. • However, in this case Autonomy (wrongly) accounted for part of its hardware cost in sales and marketing expense. The treatment is both non-compliant with IFRS and contrary to what a reader of the accounts would expect. On both counts, therefore, Autonomy should have disclosed that part of hardware cost was accounted for in sales and marketing expense. (Holgate 1, paras 4.43-4.51)	1. I will address this in my supplemental report.
(d)	Was it appropriate for Autonomy to recognise $6 million of revenue in Q2 2009 in relation to a hardware transaction with Morgan Stanley?		No. The reasons are: • The assumptions that I have been given indicate that Autonomy supplied Morgan Stanley pursuant to an agreement dated 30 June	I have not considered this transaction in MacGregor 1. I will address this in my supplemental report.

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			2009. Nevertheless, the much stronger indicator of when revenue should be recognised is the assumption that Autonomy despatched the goods to Morgan Stanley in August and September 2009. • To qualify for revenue recognition, all five of the criteria in IAS 18, para 14 need to be met. Based on the assumptions I have been given, only two of the criteria had been met at 30 June 2009. (Holgate 1, paras 4.52-4.53)	
	If not, do the Claimants' Voluntary Particulars in relation to the Morgan Stanley hardware transaction correctly identify the adjustments that		Yes, the Claimants' Voluntary Particulars correctly reflect that the revenue should have been recognised in Q3 of 2009 (and not in Q2 of 2009).	I did not consider the Claimants' alleged accounting treatment set out in the Claimants' Voluntary Particulars in MacGregor 1. I note that

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<tr><td></td><td>would fall to be made to the accounting treatment?</td><td></td><td>(Holgate 1, paras 4.52-4.54)</td><td>the Claimants' Voluntary Particulars appear to be a function of the assumptions provided to Mr Holgate.

I will address this in my supplemental report.</td></tr>
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5 VARs

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(a)	What was the substance of the transactions with the VARs?		Each of the 37 VAR transactions is different, although they share many similarities. Appendix 4 to Holgate 1 shows, based on the assumptions that I was asked to make, which of the features applies to which transaction. Based on the 13 assumptions[3] that I have been asked to make and the factual summaries provided to me, the 'sales' to the VARs are artificial and have no substance. Assumptions 1-4, 9 and 10 speak directly to the substance of the transactions. Other assumptions are also relevant to substance. I discuss assumptions 1-4, 9	I did not specifically comment in detail on the substance of the reseller transactions in MacGregor 1. The specific circumstances of each of the transactions with resellers differs, as does the contemporaneous information and documentation available to Autonomy (and Deloitte) at the time that each transaction took place. As such, my initial conclusions in respect of each of the example transactions described in sections 9 to 11 of

[3] The 13 assumptions are set out in Holgate 1, para 5.2.

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			Mr Holgate's view	Mr MacGregor's view
			and 10 in Holgate 1, paras 5.5 to 5.15. These assumptions, and others, reinforce each other. Nevertheless, if I were to pick a single illustration of the (lack of) substance of these transactions, it would be assumption 10. This applies to 30 of the 37 transactions and says in summary that, whereas there might appear (on the face of the contractual documentation) to be a sale for which the VAR needs to pay the invoiced amount, in fact the substance of the transaction was that there was no such need to pay, as there was what is commonly called a 'side agreement' which says that there is no need for the VAR to pay Autonomy from its own resources. This is of course a highly unusual	MacGregor 1 cannot be assumed to apply to other transactions with resellers in the absence of a detailed review of each. (See MacGregor 1, paragraphs 8.14, 9.68 to 9.72, 9.119 to 9.123, 10.65 to 10.67 and 11.36 to 11.39)

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			feature to find in a sales arrangement. (Holgate 1, chapter 5 and Appendices 3 and 4)	
(b)	Identify the accounting issues in respect of the treatment of sales to VARs.	The principal accounting issues are: 1. Whether the sale to the VAR had substance. 2. Whether the sale to the VAR meets the five criteria for a sale of goods in IAS 18, para 14[4]. (For the avoidance of doubt, neither Mr Holgate nor Mr MacGregor have considered IAS 18, paragraph 14 (c) and (e).) 3. Whether, in accounting for the sale to a VAR, Autonomy should have	On the basis of the general assumptions and factual summaries provided to me: 1. No. See immediately above. The sale of substance is the subsequent direct sale by Autonomy to the end user not the sale to the VAR. 2. No, the sales to the VARs typically fail three of the five criteria. All of the criteria have to be met before revenue can be recognised. 3. Yes, Autonomy should have done so. This can be	Within his report, Mr Holgate forms his opinions based solely on the assumptions he is instructed to proceed upon. Many of the asserted facts underlying the general assumptions that Mr Holgate has been asked to make in respect of the impugned transactions are disputed between the parties. The specific circumstances of each of the transactions with

[4] These criteria are reproduced in Appendix A to this statement.

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		taken into account the outcome of earlier, similar transactions with VARs.	regarded simply as 'learning from experience'. I note that in no case did the VAR effect a sale to the end-user; rather Autonomy's sale to the VAR was concluded by Autonomy putting the VAR in funds or was cancelled by reversing the sale or issuing a credit note or the debt being written off. This should have been taken into account in Autonomy's accounting.	resellers differs, as noted above. The substance of the transactions can only be established once the disputed matters are determined. (MacGregor 1, paragraphs 8.14 and 8.15, for example.) I note that Mr Holgate has not considered whether the assumptions that he has been asked to make apply to all of the other (non-impugned) transactions that Autonomy entered into in the Relevant Period. I will consider the assumptions that Mr Holgate has been asked to

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
				make in my supplemental report.
(c)	Do the Claimants' Voluntary Particulars in relation to the VAR transactions correctly identify the adjustments that would fall to be made to the accounting treatment?		Yes, the Claimants' Voluntary Particulars correctly reflect that the revenue should not have been recognised on the sale to the VAR but should instead have been recognised on Autonomy's direct sale (if any) to the end-user.	I did not consider the Claimants' alleged accounting treatment set out in the Claimants' Voluntary Particulars in MacGregor 1. I note that the Claimants' Voluntary Particulars appear to be a function of the assumptions provided to Mr Holgate. I will address this in my supplemental report.

6 Alleged reciprocal transactions

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(a)	What was the substance of the alleged reciprocal transactions?		Each of the six transactions alleged to be reciprocal transactions are different, although they share many similarities. Based on the assumptions that I have been asked to make and the factual summaries provided to me[5], there was no substance to the linked sales and purchases that constitute reciprocal transactions 1-5. This is because the sales and/or purchases were of little or no value. (Holgate 1, paragraphs 6.21, 6.38, 6.40, 6.56, 6.73 and 6.85.)	The specific circumstances of each of the alleged reciprocal transactions differs, as does the contemporaneous information and documentation that was available to Autonomy (and Deloitte) at the time that each transaction took place. As such, my initial conclusions in respect of each of the example transactions described in sections 13 and 14 of MacGregor 1 cannot be assumed to apply to other alleged reciprocal transactions in the

[5] The assumptions relating to alleged reciprocal transactions are set out in Holgate 1, in the 'assumptions' sections within paras 6.10 – 6.97. The factual summaries are set out in Holgate 1, in the 'factual summary' sections within paras 6.10-6.97.

	Agenda Item	Agreed view	Disagreed view/further comments	
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		Even if the alleged reciprocal transactions are determined to be linked, this does not necessarily preclude separate recognition of each limb of any such transaction i.e. the recognition of the gross fair value of the sale and purchase.	In transaction 6 (based on the assumptions that I have been asked to make and the factual summaries provided to me – Holgate 1, paras 6.87 - 6.91) Autonomy did not buy anything from the counterparty (MicroTech). Autonomy sold a software licence to MicroTech and then put MicroTech in funds so as to allow MicroTech to pay part of the amount owing under the sale; and wrote off the remainder. This 'sale' to MicroTech also had no substance. (Holgate 1, paras 6.92-6.96)	absence of a detailed review of each. (MacGregor 1, paragraphs 12.20, 13.87 to 13.90 and 14.52 to 14.53)
(b)	Identify the accounting issues in respect of the treatment of alleged reciprocal transactions:	We agree that the following are relevant accounting issues:		

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
	(1) Were the sales and purchases by Autonomy for each transaction linked?	1. Whether the sales and purchases by Autonomy for each transaction were linked.	1. The sales and purchases by Autonomy for each transaction were linked. They took place at or around the same time and for broadly similar amounts and so need to be considered together in order to understand their substance.	Within his report, Mr Holgate forms his opinions based solely on the assumptions he is instructed to proceed upon. For example, these assumptions are set out at Holgate 1, paragraphs 6.13 to 6.19, 6.30 to 6.36, 6.47 to 6.54, 6.64 to 6.71, 6.78 to 6.82 and 6.90 to 6.91. Mr Holgate is instructed to assume that the sales transaction would not have occurred but for the purchase transaction. Many of the asserted facts underlying the assumptions that Mr Holgate has been asked to make in respect of the impugned transactions are disputed between the parties.

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
	(2) Was it permissible for Autonomy to recognise revenue on the transactions?	2. Whether it was permissible for Autonomy to recognise revenue on the reciprocal transactions.	2. No. In the reciprocal transactions sales and purchases were made but one or both had no substance. There was a net payment from Autonomy to the counterparty but that represented an expense rather than the purchase of a valuable asset or service.	The specific circumstances of each of the alleged reciprocal transactions differs, as noted above. I will consider the assumptions that Mr Holgate has been asked to make in my supplemental report. (2) Regarding the question of whether it was permissible for Autonomy to recognise the revenue on the transactions see my comments at 6(a) above.
(c)	Do the Claimants' Voluntary Particulars in relation to the alleged reciprocal transactions correctly identify the adjustments that would fall to be made to the accounting treatment?		Yes, the Claimants' Voluntary Particulars correctly reflect that the revenue should not have been recognised on the sales leg of the reciprocal transactions, and that the net payment to the	I did not consider the Claimants' alleged accounting treatment set out in the Claimants' Voluntary Particulars in MacGregor 1. I note that the Claimants' Voluntary Particulars appear to be a

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			counterparty should have been accounted for as an expense (or as an asset to the extent that it represents a valuable asset to Autonomy).	function of the assumptions provided to Mr Holgate. I will address this in my supplemental report.

7 Hosting transactions

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
(a)	What was the substance of the transactions?		The substance of a hosting transaction (both Digital Safe (DS) and e-Discovery (eD)) is that it is a supply of a service over a period of time. That is, even though a licence is provided by Autonomy to its customer, there is no substance to the grant of that licence, as it does not change the underlying nature of the arrangement (in the case of an existing contract that is re-negotiated); neither is there any substance to the grant of a licence to a new customer who received the same services as customers who had not purchased a licence. (Holgate 1, paras 7.6 and 7.28)	The assumptions Mr Holgate is instructed to proceed upon are set out at Holgate 1, paragraph 7.3. The parties dispute many of the technical aspects of Digital Safe and e-Discovery transactions. It appears to me, when considering hosting as a particular arrangement, that it is not appropriate for all hosting to be grouped together for the purposes of the Claimants' allegations. As with other transactions, and forms of transactions, each transaction needs to be considered from an accounting perspective

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				on its own terms and substance. The nature of the arrangement is disputed between the parties. The substance of the transactions can only be established once the disputed matters are determined. (MacGregor 1, paragraphs 15.6, 15.58 and 15.60 for example)
(b)	Identify the accounting issues in respect of the treatment of hosting transactions. In particular: (1) Were there separately identifiable components of the hosted arrangement?	The principal accounting issues are: 1. Whether there were separately identifiable components of the hosted arrangement.	The appropriate accounting is as follows: 1. The components of the hosting transactions were not separately identifiable. In terms of the legal and payment structure, the grant of a licence was a different component from	Within his report, Mr Holgate forms his opinions based solely on the assumptions he is instructed to proceed upon. Many of the asserted facts underlying the assumptions that Mr Holgate has been asked to

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			the ongoing hosting service. However: (a) in the case of DS, there was no realistic prospect of the customer using the licence independently from the hosting and related service components of the DS arrangement and so there was no commercial value or meaning attached to the grant of the licence (Holgate 1, paras 7.7-7.8.); (b) in the case of eD, there was some limited prospect of use of the licence by the customer independently of an Autonomy hosted arrangement but in practice this did not happen for hosted eD transactions. There was therefore no substance to the grant of the licence (Holgate 1, paras 7.29-7.30)	make in respect of the impugned transactions are disputed between the parties. The specific circumstances of each of the Digital Safe and e-Discovery transactions differs, as noted above. The substance of the transactions can only be established once the disputed matters are determined. I will consider the assumptions that Mr Holgate has been asked to make in my supplemental report. (a) If there were separately identifiable components, providing the criteria of IAS 18.14

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	(a) If there were separately identifiable components of the hosted arrangement, was it necessary to apply the revenue recognition criteria to the separately identifiable components in order to reflect the substance of the transaction?	(a) If there were separately identifiable components, the revenue recognition criteria should be applied to the separately identifiable components in order to reflect the substance of the transaction.	(a) As explained above, there were no separate components.	and/or IAS 18.20 were met where applicable, Autonomy was entitled to recognise the IAS 18.14 revenue generated on the licence component of the hosted arrangements at the date of the sale agreement, and the separate IAS 18.20 storage services revenue over the term of the agreement (by reference further to IAS 18.25). (MacGregor 1, paragraph 15.56)
	(b) If there were not separately identifiable components of the hosted arrangement, what was the correct accounting treatment?	(b) If there were not separately identifiable components of the hosted arrangement, the revenue recognition criteria should be applied to the transaction as a whole.	(b) As there were no separate components, the entire contract revenues (including the licence fee) should have been accounted for as the provision of a service over the period during which the services were provided.	(b) It is possible that the full value of the "hybrid" hosting transactions, including the value of the licence and services set out in the contract, might be accountable by reference more to IAS 18.20 and IAS 18.25,

	Agenda Item	Agreed view	Disagreed view/further comments	
			Mr Holgate's view	Mr MacGregor's view
				where potentially a transaction (determined in each case on its own facts) was, if so determined, more the provision of a single service, to be recognised over the term of the agreement. (MacGregor 1, paragraph 15.60) The specific circumstances of each of the transactions, as I understand it, differs. See, for example, section 15 of MacGregor 1.
	(2) How did the revenue recognition criteria under IAS 18, paragraphs 14, 20 and 25 apply to the hosting transactions?	(2) Para 14 applies to the sale of goods; revenue is recognised at a point in time. Para 20 applies to the rendering of services; revenue is recognised over the period of the contract, by reference to the stage of completion at each reporting date. Para 25 applies to the rendering of	(2) Para 14 does not apply to the hosting contracts as they take the form of a service. Para 20 deals with the rendering of services and does apply. When revenue from the rendering of services is recognised	(2) See my response above at 7(a) and 7(b)1(b). In particular Mr Holgate proceeds only on instructed assumptions.

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		services where services are performed by an indeterminate number of acts over a specified period of time; in these circumstances, revenue is recognised on a straight-line basis.	over a period, the question arises as to the pattern in which it is recognised. Para 25 applies to contracts such as hosting arrangements. Hence the amount attributed in the contract to the licence is spread on a straight-line basis. (The amounts payable each year for the hosting and related services depend on the annual volumes of data handled and the amount charged for each period (eg month, quarter) is recognised as revenue in the same period.) (Holgate 1, paras 7.9-7.17 and 7.32-7.35)	
(c)	Identify the accounting issues in respect of the Schedule 6 Q2 2011 Iron Mountain transaction.	The principal accounting issues are: 1. Whether the $8m of revenue should be considered separately from Autonomy's acquisition of Iron Mountain Digital.	 1. Given that the $8m has the nature of an advance payment of revenues, it is appropriate for it to be	I have not considered this transaction in MacGregor 1. I will address this in my supplemental report.

	Agenda Item	Agreed view	Disagreed view/further comments	
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		2. If so, whether the $8m should be recognised up front or over a period in line with future sales.	accounted for in its own right, unconnected with Autonomy's accounting for its acquisition of Iron Mountain Digital. 2. As such, the $8m of revenue should not have been recognised as at 30 June 2011. The $8m should have been recognised gradually in line with future sales.	
(d)	Do the Claimants' Voluntary Particulars in relation to the hosting transactions correctly identify the adjustments that would fall to be made to the accounting treatment?		Yes, the Claimants' Voluntary Particulars correctly reflect that the revenue from the sale of the licence should not have been recognised up front but should have been recognised over the period the services were performed.	I did not consider the Claimants' alleged accounting treatment set out in the Claimants' Voluntary Particulars in MacGregor 1. I note that the Claimants' Voluntary Particulars appear to be a function of the assumptions provided to Mr Holgate. I will address this in my supplemental report.

8 Other transactions

<table>
<tr><th rowspan="2"></th><th rowspan="2">Agenda Item</th><th rowspan="2">Agreed view</th><th colspan="2">Disagreed view/further comments</th></tr>
<tr><th>Mr Holgate's view</th><th>Mr MacGregor's view</th></tr>
<tr><td>(a)</td><td>Identify the accounting issues in respect of the treatment of Transaction 1 (Tottenham Hotspur PLC) and Transaction 2 (Prisa). In particular:

(1) Was the economic substance of the transactions the provision of a solution to which the provision of services was integral?

(2) What was the appropriate accounting treatment for the transactions?</td><td></td><td>On the basis of the factual summaries provided to me and the assumptions I have been asked to make:[6]

1. The economic substance of the transactions was the provision of a solution to which the provision of services was integral.

2. Any revenue should have been recognised gradually as the services were provided (not up front). However, the uncertainties ('no defined statement of</td><td>Transaction 1 (Tottenham Hotspur)

I have not considered this transaction in MacGregor 1. I will address this in my supplemental report.

Transaction 2 (PRISA)

(1) The identification of the transaction as a "solution" stems directly from the assumptions provided to Mr Holgate.

(2) The specific circumstances of each of the "other" transactions differs, as does the contemporaneous information and</td></tr>
</table>

[6] The assumptions relating to THS are set out in paragraph 8.6 to 8.13 of Holgate 1. The assumptions relating to Prisa are set out in paragraphs 8.20-8.25 of Holgate 1.

	Agenda Item	Agreed view	Disagreed view/further comments	
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			work'[7] (THS)) ('no clear statement of work'[8] (Prisa)) were such that revenue, even on a gradual basis, could be recognised only to the extent that costs incurred are recoverable.	documentation that was available at the time that each transaction took place. As such, my initial conclusions in respect of each of the example transactions described in section 16 of MacGregor 1 cannot be assumed to apply to other "other" transactions in the absence of a detailed review of each.
(b)	Identify the accounting issues in respect of the treatment of Transaction 3 (Amgen).		On the basis of the factual summaries provided to me and the assumptions I have been asked to make:[9] 1. The arrangement as a whole was to be the	I have not considered this transaction in MacGregor 1. I will address this in my supplemental report.

[7] Holgate 1, para 8.7.
[8] Holgate 1, para 8.21.
[9] Holgate 1, para 8.33.

	Agenda Item	Agreed view	Disagreed view/further comments	
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			provision of a hosted Digital Safe service, so it was not appropriate to recognise any revenue up front. (Holgate 1, paras 8.34 and 8.35). 2. No revenue should have been recognised, even on a gradual basis, at 31 December 2010 or 30 June 2011, because no meaningful delivery of the Digital Safe solution nor provision of any hosting services had occurred by either date. (Holgate 1, para 8.36)	
(c)	Identify the accounting issues in respect of the treatment of Transaction 4 (Iron Mountain).	The principal accounting issues are: 1. Are the acquisition by Autonomy of the Iron Mountain (IM) Digital	On the basis of the assumptions I have been asked to make:[10] 1. Yes, the two are linked.	

[10] Holgate 1, paras 8.41-8.42.

	Agenda Item	Agreed view	Disagreed view/further comments	
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		business and the sale of the software by Autonomy to IM linked? As a matter of accounting, we would both proceed on the basis that we agree that the acquisition by Autonomy of the Iron Mountain (IM) Digital business and the sale of the software by Autonomy to IM are linked.	Moreover, the sale of the IDOL software has substance.	
		2. At what amount should the sale of the software be recognised? We agree that the sale of the software should be recognised at its fair value, however, we disagree as to what that fair value is.	2. The sale of the software should be recognised at its fair value. Determining fair value in this context is difficult: I am instructed that the four sales of IDOL that were used as a guide in determining fair value were not similar to the sale of IDOL to IM. It is true that, if (as here) fair value is the appropriate measurement, it should be determined even though that exercise might be difficult. However, in the context of a linked	(2) Autonomy arrived at the Iron Mountain licence fair value adjustment ("IM Licence FVA") by reference to an average of what it considered to be comparable transactions. Absent any indication of "standard price" or price list, such an approach, i.e. by reference to comparable transactions, is, in my opinion, reasonable.

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			acquisition, an accountant needs to be particularly careful in adopting a fair value that exceeds transaction price. Hence, although it is not possible to be definitive, I favour adopting the $1.5m transaction price as the fair value.	(MacGregor 1, paragraph 16.87)
(d)	Do the Claimants' Voluntary Particulars in relation to the other transactions correctly identify the adjustments that would fall to be made to the accounting treatment?		Yes.	I did not consider the Claimants' alleged accounting treatment set out in the Claimants' Voluntary Particulars in MacGregor 1. I note that the Claimants' Voluntary Particulars appear to be a function of the assumptions provided to Mr Holgate. I will address this in my supplemental report.

Declaration

We the undersigned experts individually here re-state the Expert's Declaration contained in our respective reports that we understand our overriding duties to the court, have complied with them and will continue so to do.

We further confirm that we have neither jointly nor individually been instructed to, nor has it been suggested that we should, avoid or otherwise defer from reaching agreement on any matter within our competence.

Peter Holgate
28 January 2019

Gervase MacGregor
For and on behalf of BDO LLP
28 January 2019

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Peter Holgate

Gervase MacGregor

Appendix A

Excerpts from IAS 18 'Revenue' - Paragraphs 14 and 20

Paragraph 14 – the criteria for the recognition of revenue on the sale of goods

"Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably."

Paragraph 20 – the criteria for the recognition of revenue from the rendering of services

"When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised <u>by reference to the stage of completion</u> of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;
(b) it is probable that the economic benefits associated with the transaction will flow to the entity;
(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."