

**ARM Holdings plc**  
**First Quarter Results – US GAAP**

	Quarter ended 31 March 2006 Unaudited £'000	Quarter ended 31 March 2005 Unaudited £'000	Quarter ended 31 March 2006 <sup>(1)</sup> Unaudited \$'000
<b>Revenues</b>			
Product revenues	61,232	51,372	106,213
Service revenues	3,402	3,645	5,901
Total revenues	<u>64,634</u>	<u>55,017</u>	<u>112,114</u>
<b>Cost of revenues</b>			
Product costs	(5,815)	(4,913)	(10,087)
Service costs	(1,552)	(1,410)	(2,692)
Total cost of revenues	<u>(7,367)</u>	<u>(6,323)</u>	<u>(12,779)</u>
<b>Gross profit</b>	<u>57,267</u>	<u>48,694</u>	<u>99,335</u>
Research and development	(17,456)	(14,723)	(30,279)
Sales and marketing	(10,191)	(8,284)	(17,677)
General and administrative	(10,609)	(7,837)	(18,402)
Deferred stock-based compensation	-	(2,360)	-
Amortisation of intangibles purchased through business combination	(4,587)	(3,967)	(7,957)
<b>Total operating expenses</b>	<u>(42,843)</u>	<u>(37,171)</u>	<u>(74,315)</u>
<b>Income from operations</b>	14,424	11,523	25,020
Interest, net	1,673	1,009	2,902
<b>Income before income tax</b>	16,097	12,532	27,922
Provision for income taxes	(4,137)	(3,453)	(7,176)
<b>Net income</b>	<u>11,960</u>	<u>9,079</u>	<u>20,746</u>
Net income	11,960	9,079	20,746
<b>Other comprehensive income:</b>			
Foreign currency adjustments	(5,895)	8,744	(10,225)
Unrealised holding loss on available-for- sale securities, net of tax of £301,000 (2005: £692,000)	(680)	(1,614)	(1,180)
<b>Total comprehensive income</b>	<u>5,385</u>	<u>16,209</u>	<u>9,341</u>
<b>Earnings per share (assuming dilution)</b>			
Shares outstanding ('000)	1,420,175	1,424,612	
Earnings per share – pence	0.8	0.6	
<b>Earnings per ADS (assuming dilution)</b>			
ADSs outstanding ('000)	473,392	474,871	
Earnings per ADS – cents	4.4	3.6	

(1) US dollar amounts have been translated from sterling at the 31 March 2006 closing rate of \$1.7346=£1 (see note 1)

**ARM Holdings plc**  
**Consolidated balance sheet - US GAAP**

	31 March 2006 Unaudited £'000	31 December 2005 Audited £'000	31 March 2006 <sup>(1)</sup> Unaudited \$'000
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	143,431	128,077	248,795
Short-term investments	34,625	23,990	60,061
Marketable securities	4,226	8,835	7,330
Accounts receivable, net of allowance of £2,461,000 (2005: £2,173,000) (see note 3)	61,026	55,518	105,856
Inventory: finished goods	1,844	1,490	3,199
Prepaid expenses and other assets	12,313	12,567	21,358
Total current assets	257,465	230,477	446,599
Deferred income taxes	3,556	4,422	6,168
Prepaid expenses and other assets	1,587	1,674	2,753
Property and equipment, net	12,987	12,803	22,527
Goodwill	381,669	385,572	662,043
Other intangible assets	66,920	72,345	116,080
Investments	7,798	8,800	13,526
Total assets	731,982	716,093	1,269,696
<b>Liabilities and shareholders' equity</b>			
Accounts payable	4,343	2,221	7,533
Income taxes payable	12,960	10,826	22,481
Personnel taxes	1,277	1,329	2,215
Accrued liabilities	21,614	25,024	37,492
Deferred revenue	25,225	20,354	43,755
Dividends payable	6,918	-	12,000
Total current liabilities	72,337	59,754	125,476
Deferred income taxes	4,090	7,289	7,094
Total liabilities	76,427	67,043	132,570
<b>Shareholders' equity</b>			
Ordinary shares	693	693	1,202
Additional paid-in capital	444,084	425,252	770,308
Deferred compensation	(19,248)	(4,404)	(33,387)
Treasury stock, at cost	(2,005)	(16,315)	(3,478)
Retained earnings	178,695	183,913	309,964
Accumulated other comprehensive income:			
Unrealised holding gain on available-for-sale securities, net of tax of £795,000 (2005: £1,096,000)	3,179	3,859	5,514
Cumulative translation adjustment	50,157	56,052	87,003
Total shareholders' equity	655,555	649,050	1,137,126
Total liabilities and shareholders' equity	731,982	716,093	1,269,696

(1) US dollar amounts have been translated from sterling at the 31 March 2006 closing rate of \$1.7346=£1 (see note 1)

## Notes to the Financial Statements

### (1) Basis of preparation – reporting currency

The Group prepares and reports its financial statements in UK sterling. Purely for the convenience of the reader, the US GAAP income statement and balance sheet have been translated from sterling at the closing rate on 31 March 2006 of \$1.7346=£1. Such translations should not be construed as representations that the sterling amounts represent, or have been or could be so converted into US dollars at that or at any other rate.

### (2) Share-based compensation charges

Included within the income statement shown above are share-based compensation charges of £4.0 million: £0.2 million in cost of revenues, £2.3 million in research and development costs, £0.8 million in sales and marketing costs and £0.7 million in general and administrative costs.

### (3) Accounts receivable

Included within accounts receivable at 31 March 2006 are £22.5 million (2005: £20.5 million) of amounts recoverable on contracts.

### (4) Consolidated statement of changes in shareholders' equity (US GAAP)

	Share capital £'000	Additional paid-in capital £'000	Deferred compensation £'000	Treasury stock £'000	Retained earnings £'000	Unrealised holding gain £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2006	693	425,252	(4,404)	(16,315)	183,913	3,859	56,052	649,050
Net income	-	-	-	-	11,960	-	-	11,960
Dividends	-	-	-	-	(6,918)	-	-	(6,918)
Unrealised holding losses on available-for-sale securities	-	-	-	-	-	(680)	-	(680)
Deferred compensation arising on share schemes	-	18,832	(18,832)	-	-	-	-	-
Amortisation of deferred compensation	-	-	3,988	-	-	-	-	3,988
Issuance of shares	-	-	-	21,267	(10,260)	-	-	11,007
Purchase of own shares	-	-	-	(6,957)	-	-	-	(6,957)
Currency translation adjustment	-	-	-	-	-	-	(5,895)	(5,895)
At 31 March 2006	693	444,084	(19,248)	(2,005)	178,695	3,179	50,157	655,555

### (5) Non-GAAP measures

The following non-GAAP measures, including reconciliations to the US GAAP measures, have been used in this earnings release. These measures have been presented as they allow a clearer comparison of operating results that exclude share-based compensation charges and acquisition-related charges. All figures in £'000 unless otherwise stated.

	(5.1) Q1 2006	(5.2) Q4 2005	(5.3) Q1 2005	(5.4) FY 2005
Income from operations	14,424	14,094	11,523	47,917
Acquisition-related charge – amortisation of intangibles	4,587	4,809	3,967	17,726
Acquisition-related charge – deferred stock-based compensation	-	479	2,066	5,496
Other stock-based compensation and related payroll taxes	3,988	2,628	294	4,873
Pro forma income from operations	22,999	22,010	17,850	76,012
As % of revenue	35.6%	35.0%	32.4%	32.7%

	(5.5) Q1 2006	(5.6) Q4 2005	(5.7) Q1 2005	(5.8) FY 2005
Income before income tax	16,097	15,778	12,532	53,234
Acquisition-related charge – amortisation of intangibles	4,587	4,809	3,967	17,726
Acquisition-related charge – deferred stock-based compensation	-	479	2,066	5,496
Other stock-based compensation and related payroll taxes	3,988	2,628	294	4,873
Pro forma income before income tax	24,672	23,694	18,859	81,329

	(5.9) <b>31 March 2006</b>	(5.10) <b>31 December 2005</b>
Cash and cash equivalents	143,431	128,077
Short-term investments	34,625	23,990
Short-term marketable securities	4,226	8,835
<b>Pro forma cash</b>	<b>182,282</b>	<b>160,902</b>

	(5.11) <b>Q1 2006</b>	(5.12) <b>Q4 2005</b>	(5.13) <b>Q1 2005</b>	(5.14) <b>FY 2005</b>
Pro forma cash at end of period (as above)	182,282	160,902	141,785	160,902
Less: Pro forma cash at beginning of period (as above)	(160,902)	(164,737)	(142,817)	(142,817)
Add back: Cash outflow from acquisitions (net of cash acquired)	-	4,264	14,260	20,304
Add back: Cash outflow from payment of dividends	-	4,677	-	10,436
Add back: Cash outflow from purchase of own shares	6,957	10,773	-	16,211
Less: Cash inflow from exercise of share options	(11,007)	(1,033)	(9,425)	(13,083)
<b>Pro forma cash generation</b>	<b>17,330</b>	<b>14,846</b>	<b>3,803</b>	<b>51,953</b>

	(5.15) <b>Q1 2006</b>	(5.16) <b>Q4 2005</b>	(5.17) <b>Q1 2005</b>	(5.18) <b>FY 2005</b>
Net income	11,960	12,977	9,079	41,880
Acquisition-related charge – amortisation of intangibles	4,587	4,809	3,967	17,726
Acquisition-related charge – deferred stock-based compensation	-	479	2,066	5,496
Other stock-based compensation and related payroll taxes	3,988	2,628	294	4,873
Estimated tax impact of above charges	(2,464)	(3,346)	(1,831)	(8,912)
Pro forma net income	18,071	17,547	13,575	61,063
Dilutive shares ('000)	1,420,175	1,431,084	1,424,612	1,427,013
<b>Pro forma diluted EPS</b>	<b>1.27p</b>	<b>1.23p</b>	<b>0.95p</b>	<b>4.28p</b>

## Note

*The results shown for Q1 2006, Q4 2005, and Q1 2005 are unaudited. The results shown for FY 2005 are audited. The financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 240 (3) of the Companies Act 1985. Statutory accounts of the Company in respect of the financial year ended 31 December 2005, upon which the Company's auditors have given a report which was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of that Act, are available on ARM's website at [www.arm.com](http://www.arm.com) and are in the process of being filed with the Registrar of Companies.*

*The results for ARM for Q1 2006 and previous quarters as shown reflect the accounting policies as stated in Note 1 to the US GAAP financial statements in the Statutory accounts of the company for the fiscal year ended 31 December 2005 and in the Annual Report on Form 20-F for the fiscal year ended 31 December 2004.*

*This document contains forward-looking statements as defined in section 102 of the Private Securities Litigation Reform Act of 1995. These statements are subject to risk factors associated with the semiconductor and intellectual property businesses. When used in this document, the words "anticipates", "may", "can", "believes", "expects", "projects", "intends", "likely", similar expressions and any other statements that are not historical facts, in each case as they relate to ARM, its management or its businesses and financial performance and condition are intended to identify those assertions as forward-looking*

*statements. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a number of variables, many of which are beyond our control. These variables could cause actual results or trends to differ materially and include, but are not limited to: failure to realise the benefits of our recent acquisitions, unforeseen liabilities arising from our recent acquisitions, price fluctuations, actual demand, the availability of software and operating systems compatible with our intellectual property, the continued demand for products including ARM's intellectual property, delays in the design process or delays in a customer's project that uses ARM's technology, the success of our semiconductor partners, loss of market and industry competition, exchange and currency fluctuations, any future strategic investments or acquisitions, rapid technological change, regulatory developments, ARM's ability to negotiate, structure, monitor and enforce agreements for the determination and payment of royalties, actual or potential litigation, changes in tax laws, interest rates and access to capital markets, political, economic and financial market conditions in various countries and regions and capital expenditure requirements.*

*More information about potential factors that could affect ARM's business and financial results is included in ARM's Annual Report on Form 20-F for the fiscal year ended 31 December 2004 including (without limitation) under the captions, "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is on file with the Securities and Exchange Commission (the "SEC") and available at the SEC's website at [www.sec.gov](http://www.sec.gov).*

### **About ARM**

*ARM designs the technology that lies at the heart of advanced digital products, from wireless, networking and consumer entertainment solutions to imaging, automotive, security and storage devices. ARM's comprehensive product offering includes 16/32-bit RISC microprocessors, data engines, 3D processors, digital libraries, embedded memories, peripherals, software and development tools, as well as analog functions and high-speed connectivity products. Combined with the company's broad Partner community, they provide a total system solution that offers a fast, reliable path to market for leading electronics companies. More information on ARM is available at <http://www.arm.com/>*

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