

ARM Holdings plc
Second Quarter and Six Months Results – US GAAP
(in thousands except per share data)

	Quarter ended 30 June 2003 Unaudited £'000	Quarter ended 30 June 2002 Unaudited £'000	Six months ended 30 June 2003 Unaudited £'000	Six months ended 30 June 2002 Unaudited £'000	Six months ended 30 June 2003 ⁽¹⁾ Unaudited \$'000
Revenues					
Product revenues	27,655	38,285	55,019	75,809	90,781
Service revenues	3,720	4,887	7,371	9,502	12,162
Total revenues	31,375	43,172	62,390	85,311	102,943
Cost of revenues					
Product costs	(1,253)	(1,285)	(2,825)	(3,261)	(4,661)
Service costs	(1,264)	(1,663)	(2,502)	(3,712)	(4,128)
Total cost of revenues	(2,517)	(2,948)	(5,327)	(6,973)	(8,789)
Gross profit	28,858	40,224	57,063	78,338	94,154
Research and development	(12,119)	(13,005)	(24,024)	(24,114)	(39,640)
Sales and marketing	(5,670)	(6,281)	(11,029)	(12,618)	(18,198)
General and administration	(5,685)	(5,856)	(11,535)	(11,632)	(19,033)
Total operating expenses	(23,474)	(25,142)	(46,588)	(48,364)	(76,871)
Income from operations	5,384	15,082	10,475	29,974	17,283
Interest	1,171	1,151	2,234	2,053	3,686
Minority interest	(3)	(37)	(105)	(130)	(173)
Income before income tax	6,552	16,196	12,604	31,897	20,796
Provision for income taxes	(2,228)	(4,675)	(3,981)	(9,724)	(6,569)
Net income	4,324	11,521	8,623	22,173	14,227
Net income	4,324	11,521	8,623	22,173	14,227
Other comprehensive income					
Foreign currency adjustments	(221)	(310)	(278)	(292)	(459)
Unrealized holding gain on available-for-sale securities, net of tax	938	-	938	-	1,548
Total comprehensive income	5,041	11,211	9,283	21,881	15,316
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,029,028	1,023,130	1,024,531	1,024,016	
Earnings per share – pence	0.4	1.1	0.8	2.2	
Earnings per ADS (assuming dilution)					
ADS's outstanding ('000)	343,009	341,043	341,510	341,339	
Earnings per ADS – cents	2.1	5.1	4.2	9.9	

(1) US dollar amounts have been translated from sterling at the 30 June 2003 closing rate of \$1.65=£1 (see note 1)

ARM Holdings plc
Consolidated Balance Sheet-US GAAP

	June 30 2003 Unaudited £'000	Dec 31 2002 Audited £'000	June 30 2003 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	140,987	130,304	232,629
Accounts receivable, net of allowance of £2,267,000 in 2003 and £2,193,000 in 2002	19,902	20,516	32,838
Inventory	994	1,515	1,640
Prepaid expenses and other assets	11,978	11,345	19,764
Total current assets	173,861	163,680	286,871
Deferred income taxes	2,403	1,697	3,965
Property and equipment, net	20,397	25,721	33,655
Intangible assets	11,517	10,417	19,003
Investments	3,608	4,229	5,953
Total assets	211,786	205,744	349,447
Liabilities and shareholders' equity			
Accounts payable	1,720	4,730	2,838
Income taxes payable	4,884	3,828	8,059
Personnel taxes	188	824	310
Accrued liabilities	8,829	8,636	14,568
Deferred revenue	14,119	14,415	23,296
Total liabilities	29,740	32,433	49,071
Minority interest	-	841	-
	29,740	33,274	49,071
Shareholders' equity			
Ordinary shares	511	511	843
Additional paid in capital	63,005	69,566	103,958
Deferred compensation	(531)	(313)	(876)
Treasury stock, at cost	(10,957)	(18,034)	(18,079)
Retained earnings	130,026	121,403	214,543
Unrealized holding gain on available-for-sale securities, net of tax	938	-	1,548
Cumulative translation adjustment	(946)	(663)	(1,561)
Total shareholders' equity	182,046	172,470	300,376
Total liabilities and shareholders' equity	211,786	205,744	349,447

(1) US dollar amounts have been translated from sterling at the 30 June 2003 closing rate of \$1.65=£1 (see note 1)

ARM Holdings plc
Results for the Six Months Ended 30 June 2003 – UK GAAP

Consolidated Profit and Loss Account

	Six months ended 30 June 2003 Unaudited £'000	Year ended 31 December 2002 Audited £'000	Six months ended 30 June 2002 Unaudited £'000
Turnover	62,390	150,922	85,311
Cost of sales	(5,327)	(13,185)	(6,973)
Gross profit	57,063	137,737	78,338
Operating expenses			
Research and development	(24,604)	(50,001)	(24,887)
Sales and marketing	(11,040)	(24,836)	(12,477)
Administrative expenses	(10,383)	(21,771)	(11,632)
Total operating expenses	(46,027)	(96,608)	(48,996)
Operating profit	11,036	41,129	29,342
Interest receivable, net	2,234	4,373	2,053
Profit on ordinary activities before taxation	13,270	45,502	31,395
Tax on profit on ordinary activities	(3,981)	(13,031)	(9,724)
Profit on ordinary activities after taxation	9,289	32,471	21,671
Minority interest	(105)	(232)	(130)
Retained profit for the period	9,184	32,239	21,541
Basic earnings per share (pence)	0.9	3.2	2.1
Fully diluted earnings per share (pence)	0.9	3.2	2.1

Consolidated Balance Sheet

	30 June 2003 Unaudited £'000	31 December 2002 Audited £'000	30 June 2002 Unaudited £'000
Intangible fixed assets	9,587	9,153	10,964
Tangible fixed assets	20,397	25,721	24,098
Other investments	3,608	4,229	2,849
Investment in own shares	1,977	2,166	2,388
	35,569	41,269	40,299
Stocks	994	1,515	1,137
Debtors and prepayments	34,283	33,558	52,961
Short term investments	135,775	126,013	107,579
Cash at bank and in hand	5,212	4,291	7,792
Creditors: amounts falling due within 1 year	(28,446)	(31,483)	(45,330)
Net current assets	147,818	133,894	124,139
Total assets less current liabilities	183,387	175,163	164,438
Provisions for liabilities and charges	(27)	(16)	(69)
Net assets	183,360	175,147	164,369
Shareholders' funds	183,360	174,306	163,630
Minority interests	-	841	739
Capital employed	183,360	175,147	164,369

Consolidated Cash flow Statement

	Six months ended 30 June 2003 Unaudited £'000	Year ended 31 December 2002 Audited £'000	Six months ended 30 June 2002 Unaudited £'000
Net cash inflow from operating activities	18,261	52,087	20,165
Returns on investments and servicing of finance	2,404	4,187	2,041
Taxation	(4,935)	(16,758)	(8,005)
Capital expenditure and financial investment	(1,917)	(17,714)	(7,328)
Acquisitions and disposals	(3,023)	-	-
Management of liquid resources	(9,762)	(31,637)	(13,203)
Financing	153	4,763	4,270
Increase / (decrease) in cash	1,181	(5,072)	(2,060)

Notes to the UK GAAP Financial Statements

(1) Basis of preparation – functional currency

The Company maintains its accounting records and prepares its financial statements in British 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 30 June 2003 of \$1.65=£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) Summary of significant differences between UK Generally Accepted Accounting Principles (“UK GAAP”) and United States Generally Accepted Accounting Principles (“US GAAP”)

The principal differences between ARM Holdings plc’s accounting policies under UK GAAP and those that would have been followed had the financial information been prepared under US GAAP are set out below.

Goodwill Under UK GAAP, goodwill is amortised on a straight-line basis over an estimate of the time that the group is expected to benefit from it. This was also the group’s policy under US GAAP prior to 1 January 2002, on which date, following the provisions of SFAS 142 (‘Goodwill and other Intangible Assets’), the carrying value of goodwill was frozen and became subject to annual impairment reviews.

Acquisitions Under US GAAP, payments to purchase intangible assets that are still in development are charged directly to the profit and loss account. Such payments are included within goodwill under UK GAAP, giving rise to a difference in goodwill recognised and the associated amortisation charge.

Marketable securities Under US GAAP, investments in available-for-sale securities are marked-to-market where the market value is readily determinable and gains and losses, net of deferred taxation, are recorded in other comprehensive income. Where an impairment is considered to be other than temporary, the security is written down to a new cost basis represented by the fair value of the security on the date the impairment was determined. Under UK GAAP, the group’s accounting policy is to carry such investments at cost less provisions for impairment.

Investment in own shares / treasury stock Under UK GAAP, the shares held by the group in the ESOP and the QUEST are included as “Investment in own shares” within fixed asset investments. Investment in own shares is held at the lower of cost and amounts receivable on exercise of options, where applicable, and market value. Under US GAAP these shares are treated as treasury stock and are included within shareholders’ equity, at original cost.

Save As You Earn (‘SAYE’) plans Under UK GAAP, the group has taken advantage of the exemption provided by UITF 17 (‘Employee Share Schemes’) not to recognise any compensation charge in respect of options granted under SAYE plans. Under US GAAP, the group follows the requirements of EITF 00-23, which does not permit such an exemption in respect of plans where the savings period is in excess of 27 months, as is the case with the group’s Inland Revenue approved UK SAYE plans. EITF 00-23 applies only to new offers made since 24

January 2002. The compensation charge made under US GAAP is calculated as the difference between the market price of the shares at the date of grant and the exercise price of the option and is recorded on a straight-line basis over the savings period.

Employee share options Under UK GAAP, employer's taxes that are payable on the exercise of share options are provided for over the vesting period of the options. Under US GAAP such taxes are accounted for only when the options are exercised.

Embedded derivatives Under US GAAP, where the group enters into sales contracts denominated in a currency that is neither the functional currency of the group nor the functional currency of the customer and where there are uninvoiced amounts on such contracts, such derivatives are carried at fair value. The resulting gain or loss is recognised in the income statement. Embedded derivatives are not revalued to fair value under UK GAAP.

Cash Under UK GAAP cash does not include short term deposits and investments which cannot be withdrawn without notice and without incurring a penalty. Such items are shown as current asset investments. Under US GAAP deposits with a maturity of less than three months at inception which are convertible into known amounts of cash are included as cash and cash equivalents.

UK/US GAAP Reconciliations – profit and loss account

	Six months ended 30 June 2003 Unaudited	Six months ended 30 June 2002 Unaudited
	£'000	£'000
Retained profit under UK GAAP	9,184	21,541
Movement on provision for employer's taxes on share options	11	(141)
Difference on amortisation of goodwill	666	773
Mark-to-market of embedded derivatives	(344)	-
Compensation charge in respect of SAYE options	44	-
Impairment of investment	(938)	-
Net income under US GAAP	8,623	22,173

UK/US GAAP Reconciliations - balance sheet

	30 June 2003 Unaudited	31 Dec 2002 Audited
	£'000	£'000
Cash under UK GAAP	5,212	4,291
Short term investments	135,775	126,013
Cash and cash equivalents under US GAAP	140,987	130,304
Shareholders' funds under UK GAAP	183,360	174,306
Investment in own shares /treasury stock	(10,957)	(18,034)
Contribution to QUEST, net of proceeds from allocation of shares	8,980	15,868
Provision for employer's taxes on share options	27	16
Write off of in-process research and development	(150)	(150)
Difference on amortisation of goodwill	2,080	1,414
Fair value of embedded derivatives	(1,294)	(950)
Shareholders' equity under US GAAP	182,046	172,470

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 2002 have been delivered to the Registrar of Companies, 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.