

ARM Holdings plc
Second Quarter and Six Months Results – US GAAP

	Quarter ended 30 June 2006 Unaudited £'000	Quarter ended 30 June 2005 Unaudited £'000	Six months ended 30 June 2006 Unaudited £'000	Six months ended 30 June 2005 Unaudited £'000	Six months ended 30 June 2006 ⁽¹⁾ Unaudited \$'000
Revenues					
Product revenues	61,782	54,485	123,014	105,857	227,527
Service revenues	3,948	3,362	7,350	7,007	13,594
Total revenues	65,730	57,847	130,364	112,864	241,121
Cost of revenues					
Product costs	(5,794)	(4,548)	(11,609)	(9,461)	(21,472)
Service costs	(1,610)	(1,638)	(3,162)	(3,048)	(5,848)
Total cost of revenues	(7,404)	(6,186)	(14,771)	(12,509)	(27,320)
Gross profit	58,326	51,661	115,593	100,355	213,801
Research and development	(17,445)	(15,787)	(34,901)	(30,510)	(64,553)
Sales and marketing	(10,609)	(8,305)	(20,800)	(16,589)	(38,472)
General and administrative	(13,309)	(9,157)	(23,918)	(16,994)	(44,239)
Deferred stock-based compensation	-	(2,142)	-	(4,502)	-
Amortisation of intangibles purchased through business combination	(5,086)	(4,608)	(9,673)	(8,575)	(17,891)
Total operating expenses	(46,449)	(39,999)	(89,292)	(77,170)	(165,155)
Income from operations	11,877	11,662	26,301	23,185	48,646
Interest, net	1,819	1,230	3,492	2,239	6,459
Profit on disposal of available-for-sale security	5,270	-	5,270		9,747
Income before income tax	18,966	12,892	35,063	25,424	64,852
Provision for income taxes	(4,770)	(2,852)	(8,907)	(6,305)	(16,474)
Net income	14,196	10,040	26,156	19,119	48,378
Other comprehensive income:					
Foreign currency adjustments	(31,894)	26,886	(37,789)	35,630	(69,895)
Unrealised holding gain/(loss) on available-for-sale securities, net of tax of £39,000 (Q2 2005: £863,000; 1H 2006: £560,000; 1H 2005: £1,555,000)	95	(1,980)	(1,280)	(3,594)	(2,367)
Total comprehensive income / (loss)	(17,603)	34,946	(12,913)	51,155	(23,884)
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,413,212	1,426,944	1,412,330	1,425,572	
Earnings per share – pence	1.0	0.7	1.9	1.3	
Earnings per ADS (assuming dilution)					
ADSs outstanding ('000)	471,071	475,648	470,777	475,191	
Earnings per ADS – cents	5.6	3.8	10.3	7.2	

(1) US dollar amounts have been translated from sterling at the 30 June 2006 closing rate of \$1.8496=£1 (see note 1)

ARM Holdings plc
Consolidated balance sheet - US GAAP

	30 June 2006 Unaudited £'000	31 December 2005 Audited £'000	30 June 2006 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	95,381	128,077	176,417
Short-term investments	34,976	23,990	64,692
Marketable securities	18,449	8,835	34,123
Accounts receivable, net of allowance of £2,174,000 in 2006 and £2,173,000 in 2005	72,049	55,518	133,262
Inventory: finished goods	1,939	1,490	3,586
Prepaid expenses and other assets	18,101	12,567	33,479
Total current assets	240,895	230,477	445,559
Deferred income taxes	4,726	4,422	8,741
Prepaid expenses and other assets	1,501	1,674	2,776
Property and equipment, net	13,427	12,803	24,835
Goodwill	366,632	385,572	678,123
Other intangible assets	64,754	72,345	119,769
Investments	3,578	8,800	6,618
Total assets	695,513	716,093	1,286,421
Liabilities and shareholders' equity			
Accounts payable	3,718	2,221	6,877
Income taxes payable	13,897	10,826	25,704
Personnel taxes	1,335	1,329	2,469
Accrued liabilities	24,353	25,024	45,043
Deferred revenue	28,347	20,354	52,431
Total current liabilities	71,650	59,754	132,524
Deferred income taxes	2,587	7,289	4,785
Total liabilities	74,237	67,043	137,309
Shareholders' equity			
Ordinary shares	694	693	1,284
Additional paid-in capital	459,674	425,252	850,213
Deferred compensation	(27,657)	(4,404)	(51,154)
Treasury stock, at cost	(19,543)	(16,315)	(36,147)
Retained earnings	189,641	183,913	350,760
Accumulated other comprehensive income:			
Unrealised holding gain on available-for-sale securities, net of tax of £313,000 (2005: £1,096,000)	204	3,859	377
Cumulative translation adjustment	18,263	56,052	33,779
Total shareholders' equity	621,276	649,050	1,149,112
Total liabilities and shareholders' equity	695,513	716,093	1,286,421

(1) US dollar amounts have been translated from sterling at the 30 June 2006 closing rate of \$1.8496=£1 (see note 1)

ARM Holdings plc
Consolidated income statement - IFRS

	Six months ended 30 June 2006 Unaudited £'000	Six months ended 30 June 2005 Unaudited £'000	Year ended 31 December 2005 Audited £'000
Revenues			
Product revenues	123,014	105,857	217,711
Service revenues	7,350	7,007	14,728
Total revenues	130,364	112,864	232,439
Cost of revenues			
Product costs	(11,609)	(9,461)	(19,265)
Service costs (see note 2)	(3,119)	(3,765)	(7,345)
Total cost of revenues	(14,728)	(13,226)	(26,610)
Gross profit	115,636	99,638	205,829
Operating expenses			
Research and development (see note 2)	(38,990)	(41,486)	(80,273)
Sales and marketing (see note 2)	(25,323)	(23,289)	(47,389)
General and administrative (see note 2)	(24,067)	(19,675)	(43,010)
Profit on disposal of available-for-sale security	5,270	-	-
Total net operating expenses	(83,110)	(84,450)	(170,672)
Profit from operations	32,526	15,188	35,157
Investment income	3,492	2,239	5,317
Profit before tax	36,018	17,427	40,474
Tax	(11,169)*	(5,965)	(10,827)
Profit for the period	24,849	11,462	29,647
Dividends			
- final 2004 paid at 0.42 pence per share	-	5,759	5,759
- interim 2005 paid at 0.34 pence per share	-	-	4,677
- final 2005 paid at 0.5 pence per share	6,918	-	-
- interim 2006 proposed at 0.4 pence per share	5,481	-	-
Earnings per share			
Basic and diluted earnings	24,849	11,462	29,647
Number of shares ('000)			
Basic weighted average number of shares	1,377,117	1,366,672	1,369,335
Effect of dilutive securities:			
Share options	33,777	58,212	55,027
Diluted weighted average number of shares	1,410,894	1,424,884	1,424,362
Basic EPS	1.8p	0.8p	2.2p
Diluted EPS	1.8p	0.8p	2.1p

All activities relate to continuing operations.

All of the profit for the period is attributable to the equity shareholders of the parent.

* Tax comprises £13,274,000 of UK taxation and a credit of £2,105,000 of overseas taxation.

ARM Holdings plc
Consolidated balance sheet - IFRS

	30 June 2006 Unaudited £'000	30 June 2005 Unaudited £'000	31 December 2005 Audited £'000
Assets			
Current assets:			
Cash and cash equivalents	95,381	121,646	128,077
Financial assets: Short-term investments	34,976	10,437	23,990
Short-term marketable securities	18,449	22,553	8,835
Fair value of currency exchange contracts	530	-	-
Accounts receivable	72,049	49,660	55,518
Prepaid expenses and other assets	17,571	15,486	12,567
Inventories: finished goods	1,939	1,830	1,490
Total current assets	240,895	221,612	230,477
Non-current assets:			
Financial assets: Available-for-sale investments	3,578	6,741	8,800
Prepaid expenses and other assets	1,501	1,847	1,674
Property, plant and equipment	9,320	11,030	8,990
Goodwill	449,041	446,721	474,430
Other intangible assets	72,696	77,248	79,743
Deferred tax assets	10,984	5,041	13,633
Total non-current assets	547,120	548,628	587,270
Total assets	788,015	770,240	817,747
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	3,718	4,996	2,221
Current tax liabilities	13,897	11,045	10,826
Accrued and other liabilities	27,500	24,659	26,598
Financial liabilities: Fair value of currency exchange contracts	-	1,450	1,708
Deferred revenue	28,347	20,438	20,354
Total current liabilities	73,462	62,588	61,707
Net current assets	167,433	159,024	168,770
Non-current liabilities:			
Deferred tax liabilities	6,102	-	9,193
Total liabilities	79,564	62,588	70,900
Net assets	708,451	707,652	746,847
Shareholders' equity			
Share capital	694	691	693
Share premium account	447,901	445,416	447,091
Share option reserve	61,474	61,474	61,474
Retained earnings	175,453	157,199	166,656
Revaluation reserve	(734)	1,643	2,921
Cumulative translation adjustment	23,663	41,229	68,012
Total equity	708,451	707,652	746,847

ARM Holdings plc
Consolidated cash flow statement - IFRS

	Six months ended 30 June 2006 Unaudited £'000	Six months ended 30 June 2005 Unaudited £'000	Year ended 31 December 2005 Audited £'000
Operating activities			
Profit from operations	32,526	15,188	35,157
Depreciation and amortisation of tangible and intangible assets	13,165	14,244	28,608
Profit on disposal of available-for-sale security	(5,270)	-	-
Loss on disposal of property, plant and equipment	64	53	16
Impairment of available-for sale investments	-	337	337
Compensation charge in respect of share-based payments	7,496	11,944	20,863
Provision for doubtful debts	66	35	722
Provision for obsolescence of inventory	-	-	22
Changes in working capital:			
Accounts receivable	(16,414)	(15,348)	(21,247)
Inventories	(449)	(933)	(519)
Prepaid expenses and other assets	(1,674)	(316)	(61)
Fair value of currency exchange contracts	(2,238)	3,124	3,382
Accounts payable	1,467	886	(1,931)
Deferred revenue	7,993	(1,959)	(2,043)
Accrued and other liabilities	782	(4,772)	(7,199)
Cash generated by operations before tax	37,514	22,483	56,107
Income taxes paid	(10,763)	(7,069)	(14,447)
Net cash from operating activities	26,751	15,414	41,660
Investing activities			
Interest received	3,250	2,292	5,444
Purchases of property, plant and equipment	(3,471)	(2,747)	(5,492)
Proceeds on disposal of property, plant and equipment	19	37	37
Purchases of other intangible assets	(827)	(389)	(572)
Purchases of available-for-sale investments	(165)	(132)	(274)
Proceeds on disposal of available-for-sale investments	5,567	96	96
(Purchase) / maturity of short-term investments	(20,600)	(699)	(599)
Purchases of subsidiaries, net of cash acquired	(13,949)	(14,350)	(20,304)
Net cash used in investing activities	(30,176)	(15,892)	(21,664)
Financing activities			
Issue of shares	811	11,406	13,921
Purchase of own shares	(29,086)	-	(16,211)
Issue of treasury shares	12,348	-	-
Dividends paid to shareholders	(6,918)	(5,759)	(10,436)
Net cash (used in) / from financing activities	(22,845)	5,647	(12,726)
Net increase / (decrease) in cash and cash equivalents	(26,270)	5,169	7,270
Cash and cash equivalents at beginning of period	128,077	110,561	110,561
Effect of foreign exchange rate changes	(6,426)	5,916	10,246
Cash and cash equivalents at end of period	95,381	121,646	128,077

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 30 June 2006 of \$1.8496=£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.

International Financial Reporting Standards

The financial information prepared in accordance with the Group's IFRS accounting policies comprises the consolidated balance sheets as of 30 June 2006 and 30 June 2005 and related consolidated interim statements of income and cash flows for the six months then ended, together with related notes. This financial information has been prepared in accordance with the Listing Rules of the Financial Services Authority. In preparing this financial information management has used the principal accounting policies as set out in the Group's annual financial statements for the year ended 31 December 2005. The Group has chosen not to adopt IAS 34, 'Interim financial statements', in preparing its 2006 interim statements and, therefore, this interim financial information is not in compliance with IFRS.

(2) Share-based compensation charges and acquisition-related expenses

Included within the US GAAP income statement for the quarter ended 30 June 2006 are share-based compensation charges of £4.2 million: £0.3 million in cost of revenues, £2.4 million in research and development costs, £0.8 million in sales and marketing costs and £0.7 million in general and administrative costs.

Included within the IFRS income statement for the six months ended 30 June 2006 are total share-based payment costs of £7.5 million (six months ended 30 June 2005: £11.9 million; year ended 31 December 2005: £20.9 million), allocated £0.5 million (six months ended 30 June 2005: £0.7 million; year ended 31 December 2005: £1.3 million) in cost of revenues, £4.3 million (30 June 2005: £6.9 million; 31 December 2005: £12.1 million) in research and development costs, £1.5 million (30 June 2005: £2.3 million; 31 December 2005: £4.2 million) in sales and marketing costs and £1.2 million (30 June 2005: £2.0 million; 31 December 2005: £3.3 million) in general and administrative costs.

Also included within IFRS operating costs for the six months ended 30 June 2006 is amortisation of intangibles of £9.5 million (six months ended 30 June 2005: £8.6 million; year ended 31 December 2005: £17.9 million), allocated £4.5 million (30 June 2005: £4.0 million; 31 December 2005: £8.1 million) in research and development costs, £4.7 million (30 June 2005: £4.3 million; 31 December 2005: £9.1 million) in sales and marketing costs and £0.3 million (30 June 2005: £0.3 million; 31 December 2005: £0.7 million) in general and administrative costs.

(3) Accounts receivable

Included within accounts receivable at 30 June 2006 are £24.8 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 -sation £'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
Shares issued on exercise of options	1	810	-	-	-	-	-	811
Net income	-	-	-	-	26,156	-	-	26,156
Dividends	-	-	-	-	(6,918)	-	-	(6,918)
Realised gain on available-for-sale security	-	-	-	-	-	(2,375)	-	(2,375)
Unrealised holding losses on available-for-sale securities	-	-	-	-	-	(1,280)	-	(1,280)
Tax effect of option exercises	-	2,148	-	-	-	-	-	2,148
Deferred compensation arising on share schemes	-	31,464	(31,464)	-	-	-	-	-
Amortisation of deferred compensation	-	-	8,211	-	-	-	-	8,211
Issuance of shares	-	-	-	25,858	(13,510)	-	-	12,348
Purchase of own shares	-	-	-	(29,086)	-	-	-	(29,086)
Currency translation adjustment	-	-	-	-	-	-	(37,789)	(37,789)
At 30 June 2006	694	459,674	(27,657)	(19,543)	189,641	204	18,263	621,276

(5) Consolidated statement of changes in shareholders' equity (IFRS)

	Share capital	Share premium account	Share option reserve	Retained earnings	Revaluation reserve	Cumulative translation reserve	Total
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	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2006	693	447,091	61,474	166,656	2,921	68,012	746,847
Shares issued on exercise of options	1	810	-	-	-	-	811
Profit for the period	-	-	-	24,849	-	-	24,849
Dividends	-	-	-	(6,918)	-	-	(6,918)
Credit in respect of employee share schemes	-	-	-	7,496	-	-	7,496
Movement on deferred tax arising on outstanding share options	-	-	-	108	-	-	108
Purchase of own shares	-	-	-	(29,086)	-	-	(29,086)
Proceeds from sale of own shares	-	-	-	12,348	-	-	12,348
Realised gain on available-for-sale security	-	-	-	-	(2,375)	-	(2,375)
Unrealised holding losses on available-for-sale investments (net of deferred tax of £560,000)	-	-	-	-	(1,280)	-	(1,280)
Currency translation adjustment	-	-	-	-	-	(44,349)	(44,349)
At 30 June 2006	694	447,901	61,474	175,453	(734)	23,663	708,451

(6) Summary of significant differences between US GAAP and IFRS

Goodwill Under both IFRS and US GAAP, goodwill is not subject to amortisation, but is tested at least annually for impairment. As permitted by IFRS 1, the Company's goodwill under IFRS has been frozen at the amount recorded under UK GAAP as at 1 January 2004. Under US GAAP, following the provisions of SFAS 142, "Goodwill and other intangible assets", the carrying value of goodwill was frozen at the amount recorded under previous US GAAP as at 1 January 2002. Under both previous US GAAP and UK GAAP, goodwill was amortised over its useful economic life. Thus, while ongoing accounting policies in respect of goodwill are similar under US GAAP and IFRS, the difference in the dates of transition means that different amounts of goodwill are recorded.

Under US GAAP, certain costs to be incurred on restructuring on business combination are treated as a fair value adjustment in the balance sheet acquired. Under IFRS, these costs are expensed post-acquisition. Additionally, under US GAAP, tax benefits arising from the exercise of options issued as part of the consideration for a business combination become a deduction to goodwill, only to the extent that those benefits do not exceed the fair value of the consideration relating to those options at the appropriate tax rate. Any excess tax benefits are a deduction to equity. Under IFRS, the full tax benefit is a deduction to equity.

The 2004 annual report included a provisional assessment of the fair values of assets and liabilities acquired on acquisition of Artisan Components Inc. on 23 December 2004. Where these provisional values were amended as estimates were refined in 2005, adjustments to fair values were recorded as prior year adjustments to goodwill for IFRS purposes in 2004. Under US GAAP, these were recorded as amendments to goodwill in 2005.

Recognition and amortisation of intangibles The Company has taken advantage of the exemption under IFRS 1 not to apply IFRS retrospectively to business combinations occurring before 1 January 2004. This means that for business combinations occurring before this date, the previously reported UK GAAP treatment has continued to be followed. Under previous UK GAAP, intangible assets were recognised separately from goodwill only where they could be sold separately without disposing of a business of the entity. This separability criterion does not apply under either IFRS or US GAAP. Thus, a number of intangible assets which are required to be recognised separately from goodwill under both IFRS 3 and SFAS 142, were subsumed within goodwill under UK GAAP. Under both US GAAP and IFRS, such intangible assets are amortised over their useful economic lives. Except in relation to in-process research and development (see below), there is no difference in accounting policy for intangible assets recognised as a result of business combinations entered into after 1 January 2004.

In-process research and development Under IFRS, in-process research and development projects purchased as part of a business combination may meet the criteria set out in IAS 38, "Intangible assets", for recognition as intangible assets other than goodwill and are amortised over their useful economic lives commencing when the asset is brought into use. Under US GAAP, in-process research and development is immediately written-off to the income statement. This accounting policy difference gives rise to an associated difference in deferred taxation.

Valuation of consideration on business combination Under both IFRS and US GAAP, the fair value of consideration in a business combination includes the fair value of both equity issued and any share options granted as part of that combination. Under IFRS, any equity issued is valued at the fair value as of the date of completion, whilst under US GAAP, the equity is valued at the date the terms of the combination were agreed to and announced. For options, under US GAAP, the fair value is based upon the total number of options granted, both vested and unvested, whilst under IFRS the fair value only includes those that have vested, together with a pro-rata value for partially vested options. Furthermore, where there is contingent consideration for an acquisition, under IFRS this is recognised as part of the purchase consideration if the contingent conditions are expected to be satisfied, whilst under US GAAP it is only recognised if the conditions have actually been met.

Deferred compensation Under US GAAP, the intrinsic value of unvested stock options issued by an acquirer as part of a business combination in exchange for unvested share options of the acquiree is recorded as a debit balance within shareholders' funds. This amount is charged to the profit and loss account over the vesting period of the share options in accordance with FIN 28. Under IFRS, no such adjustment to shareholders' funds is made on acquisition.

Compensation charge in respect of share-based payments The Company issues equity-settled share-based payments to certain employees. In accordance with IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant, using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. Under US GAAP, the Company is required, effective as of 1 January 2006, to adopt SFAS No. 123 (revised 2004) (SFAS No. 123R), "Share-based payment". SFAS No. 123R requires the Company to expense share-based payments, including employee stock-options, based on their fair value. The Company has elected to utilise the "modified prospective" method of adoption, such that compensation cost is recognised beginning with the effective date (i) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (ii) based on the requirements of SFAS No. 123, "Accounting for stock-based compensation", for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

In 2005 under US GAAP, the company had elected to use the intrinsic value-based method to account for all its employee stock-based compensation plans, under the recognition and measurement principles of APB Opinion No. 25, "Accounting for stock issued to employees", and related interpretations. Thus no compensation expense was recorded in 2005 where the exercise price of the option was equal to the share price on the date of grant.

In 2005 under US GAAP, the Company recognised a compensation charge in respect of the UK SAYE plans. The compensation charge was calculated as the difference between the market price of the shares at the date of grant and the exercise price of the option and was recorded on a straight-line basis over the savings period. In addition, certain options attracted a charge under variable plan accounting under US GAAP. Under IFRS, this charge is calculated in the same manner as other share-based payments, as detailed above.

In 2005 under US GAAP, the Company followed variable plan accounting for grants under the Company's LTIP, measuring compensation expense as the difference between the exercise price and the fair market value of the shares at each period end over the vesting period of the options. Increases in fair market value of the shares resulted in a charge and decreases in fair market value of the shares resulted in a credit, subject to the cumulative amount previously expensed. Under IFRS, this charge is calculated in the same manner as other share-based payments, as detailed above.

Deferred tax on UK and US share options In the US and the UK, the Company is entitled to a tax deduction for the amount treated as employee compensation under US and UK tax rules on exercise of certain employee share options. The compensation is equivalent to the difference between the option exercise price and the fair market value of the shares at the date of exercise.

Under IFRS, deferred tax assets are recognised and are calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the compensation expense at the statutory tax rate, the excess is recorded directly in equity, against the profit and loss reserve. In accordance with the transitional provisions of IFRS 2, no compensation charge is recorded in respect of options granted before 7 November 2002 or in respect of those options which have been exercised or have lapsed before 31 December 2004. Nevertheless, tax deductions have arisen and will continue to arise on these options. The tax effects arising in relation to these options are recorded directly in equity, against retained earnings.

Under US GAAP, deferred tax assets are recognised by multiplying the compensation expense recorded by the prevailing tax rate in the relevant tax jurisdiction. Where, on exercise of the relevant option, the tax benefit obtained exceeds the deferred tax asset in relation to the relevant options, the excess is recorded in additional paid-in capital. Where the tax benefit is less than the deferred tax asset, the write-down of the deferred tax asset is recorded against additional paid-in capital to the extent of previous excess tax benefits recorded in this account, with any remainder recorded in the income statement.

Employer taxes on share options Under IFRS, 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 when the options are exercised.

Reconciliation of IFRS profit to US GAAP net income	Six months ended 30 June 2006 Unaudited £'000	Six months ended 30 June 2005 Unaudited £'000	Year ended 31 December 2005 Audited £'000
Profit for financial period as reported under IFRS	24,849	11,462	29,647
Adjustments for:			
Amortisation of intangibles	398	358	548
Write-off of in-process research and development	(540)	(335)	(335)
Deduct: US GAAP compensation charge in respect of LTIP	-	(611)	(3,814)
Deduct : US GAAP compensation charge in respect of SAYE schemes	-	(186)	(417)
Deduct : US GAAP deferred stock-based compensation re acquisition	-	(3,706)	(5,496)
Deduct : US GAAP compensation charge in respect of all share-based payments	(8,211)	-	-

Add: IFRS compensation charge in respect of all share-based payments	7,496	11,944	20,863
Employer's taxes on share options	(2)	-	3
Utilisation of restructuring provision	-	533	1,368
Foreign exchange on contingent consideration	(97)	-	40
Tax on UK and US share options	-	-	(370)
Tax difference on amortisation of intangibles	(165)	(164)	(248)
Tax difference on share-based payments	2,428	(176)	91
Net income as reported under US GAAP	26,156	19,119	41,880

Reconciliation of shareholders' equity from IFRS to US GAAP

	30 June 2006 Unaudited £'000	30 June 2005 Unaudited £'000	31 December 2005 Audited £'000
Shareholders' equity as reported under IFRS	708,451	707,652	746,847
Adjustments for:			
Employer's taxes on share options	28	27	30
Utilisation of restructuring provision	1,368	533	1,368
Cumulative difference on amortisation of goodwill	2,713	2,713	2,713
Cumulative difference on amortisation of intangibles	840	251	441
Cumulative write-off of in-process research and development	(4,637)	(4,097)	(4,097)
Cumulative difference on deferred tax	(429)	(178)	(263)
Valuation of equity consideration on acquisition	(82,435)	(82,435)	(82,435)
Valuation of option consideration on acquisition	17,476	17,476	17,476
Deferred compensation on acquisition	(9,579)	(9,579)	(9,579)
Deferred tax on share-based payments	(4,307)	(7,899)	(8,775)
Portion of tax benefit arising on exercise of options issued on acquisition taken to goodwill under US GAAP	(4,844)	(3,928)	(4,844)
Foreign exchange on valuation of intangible assets and deferred tax	(3,312)	(5,678)	(9,872)
Foreign exchange on valuation of contingent consideration	(57)	-	40
Shareholders' equity as reported under US GAAP	621,276	614,858	649,050

Reconciliation of goodwill from IFRS to US GAAP

	30 June 2006 Unaudited £'000	30 June 2005 Unaudited £'000	31 December 2005 Unaudited £'000
Goodwill as reported under IFRS	449,041	446,721	474,430
Adjustments for:			
Valuation of restructuring provision on acquisition	1,235	1,117	1,235
Cumulative difference on amortisation of goodwill	2,713	2,713	2,713
Cumulative write-off of in-process research and development	(150)	(150)	(150)
Separately identifiable intangible assets	(302)	(302)	(302)
Deferred tax on capitalised in-process research and development	(1,570)	(1,570)	(1,570)
Portion of tax benefit arising on exercise of options issued on acquisition taken to goodwill under US GAAP	(4,248)	(3,928)	(4,248)
Valuation of equity consideration on acquisition	(82,435)	(82,435)	(82,435)
Valuation of option consideration on acquisition	17,476	17,476	17,476
Deferred compensation on acquisition	(9,579)	(9,579)	(9,579)
Contingent consideration	(1,864)	(1,665)	(1,864)
Foreign exchange on revaluation of goodwill	(3,685)	(5,485)	(10,134)
Goodwill as reported under US GAAP	366,632	362,913	385,572

(7) 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 one-off non-recurring charges, acquisition-related charges and profit on disposal of available-for-sale securities. All figures in £'000 unless otherwise stated.

	(7.1) Q2 2006	(7.2) Q1 2006	(7.3) Q2 2005	(7.4) H1 2006	(7.5) H1 2005
Income from operations (US GAAP)	11,877	14,424	11,662	26,301	23,185
Acquisition-related charge – amortisation of intangibles	5,086	4,587	4,608	9,673	8,575
Acquisition-related charge – deferred stock-based compensation	-	-	1,640	-	3,706
Other stock-based compensation and related payroll taxes	4,223	3,988	502	8,211	796
Pro forma income from operations	21,186	22,999	18,412	44,185	36,262
As % of revenue	32.2%	35.6%	31.8%	33.9%	32.1%

	(7.6) Q2 2006	(7.7) Q1 2006	(7.8) Q2 2005	(7.9) H1 2006	(7.10) H1 2005
Income before income tax (US GAAP)	18,966	16,097	12,892	35,063	25,424
Acquisition-related charge – amortisation of intangibles	5,086	4,587	4,608	9,673	8,575
Acquisition-related charge – deferred stock-based compensation	-	-	1,640	-	3,706
Other stock-based compensation and related payroll taxes	4,223	3,988	502	8,211	796
Profit on disposal of available-for-sale security	(5,270)	-	-	(5,270)	-
Pro forma income before income tax	23,005	24,672	19,642	47,677	38,501

	(7.11) 30 June 2006	(7.12) 31 March 2006	(7.13) 31 December 2005
Cash and cash equivalents	95,381	143,431	128,077
Short-term investments	34,976	34,625	23,990
Short-term marketable securities	18,449	4,226	8,835
Pro forma cash	148,806	182,282	160,902

	(7.14) Q2 2006	(7.15) Q1 2006	(7.16) Q2 2005	(7.17) H1 2006	(7.18) H1 2005
Pro forma cash at end of period (as above)	148,806	182,282	154,636	148,806	154,636
Less: Pro forma cash at beginning of period	(182,282)	(160,902)	(141,785)	(160,902)	(142,817)
Add back: Cash outflow from acquisitions (net of cash acquired)	13,949	-	90	13,949	14,350
Add back: Cash outflow from payment of dividends	6,918	-	5,759	6,918	5,759
Add back: Cash outflow from purchase of own shares	22,129	6,957	-	29,086	-
Less: Cash inflow from exercise of share options	(2,152)	(11,007)	(1,981)	(13,159)	(11,406)
Less: Cash inflow from disposal of available-for-sale security	(5,567)	-	-	(5,567)	-
Pro forma cash generation	1,801	17,330	16,719	19,131	20,522

	(7.19) Q2 2006	(7.20) Q1 2006	(7.21) Q2 2005	(7.22) H1 2006	(7.23) H1 2005
Net income (US GAAP)	14,196	11,960	10,040	26,156	19,119
Acquisition-related charge – amortisation of intangibles	5,086	4,587	4,608	9,673	8,575
Acquisition-related charge – deferred stock-based compensation	-	-	1,640	-	3,706
Other stock-based compensation and related payroll taxes	4,223	3,988	502	8,211	796
Profit on disposal of available-for-sale security	(5,270)	-	-	(5,270)	-
Estimated tax impact of above charges	(972)	(2,464)	(1,875)	(3,436)	(3,706)
Pro forma net income	17,263	18,071	14,915	35,334	28,490
Dilutive shares ('000)	1,413,212	1,420,175	1,426,944	1,412,330	1,425,572
Pro forma diluted EPS	1.22p	1.27p	1.05p	2.50p	2.00p

(7.24) Pro forma income statement for Q2 2006

	Pro forma £'000	Stock-based compensation £'000	Intangible amortisation* £'000	Investment disposal £'000	US GAAP £'000
Revenues					
Product revenues	61,782	-	-	-	61,782
Service revenues	3,948	-	-	-	3,948
Total revenues	65,730	-	-	-	65,730
Cost of revenues					
Product costs	(5,794)	-	-	-	(5,794)
Service costs	(1,356)	(254)	-	-	(1,610)
Total cost of revenues	(7,150)	(254)	-	-	(7,404)
Gross profit	58,580	(254)	-	-	58,326
Research and development	(14,996)	(2,449)	-	-	(17,445)
Sales and marketing	(9,765)	(844)	-	-	(10,609)
General and administrative	(12,633)	(676)	-	-	(13,309)
Amortisation of intangibles purchased through business combination	-	-	(5,086)	-	(5,086)
Total operating expenses	(37,394)	(3,969)	(5,086)	-	(46,449)
Income from operations	21,186	(4,223)	(5,086)	-	11,877
Interest, net	1,819	-	-	-	1,819
Profit on disposal of available-for-sale security	-	-	-	5,270	5,270
Income before income tax	23,005	(4,223)	(5,086)	5,270	18,966
Provision for income taxes	(5,742)	645	1,790	(1,463)	(4,770)
Net income	17,263	(3,578)	(3,296)	3,807	14,196
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,413,212				1,413,212
Earnings per share – pence	1.22				1.00
Earnings per ADS (assuming dilution)					
ADSs outstanding ('000)	471,071				471,071
Earnings per ADS – cents	6.78				5.57

* intangible amortisation includes £540,000 of in-process research and development write-off

(7.25) Pro forma income statement for Q2 2005

	Pro forma	Stock-based compensation	Intangible amortisation*	US GAAP
	£'000	£'000	£'000	£'000
Revenues				
Product revenues	54,485	-	-	54,485
Service revenues	3,362	-	-	3,362
Total revenues	57,847	-	-	57,847
Cost of revenues				
Product costs	(4,548)	-	-	(4,548)
Service costs	(1,638)	-	-	(1,638)
Total cost of revenues	(6,186)	-	-	(6,186)
Gross profit	51,661	-	-	51,661
Research and development	(15,787)	-	-	(15,787)
Sales and marketing	(8,305)	-	-	(8,305)
General and administrative	(9,157)	-	-	(9,157)
Deferred stock-based compensation	-	(2,142)	-	(2,142)
Amortisation of intangibles purchased through business combination	-	-	(4,608)	(4,608)
Total operating expenses	(33,249)	(2,142)	(4,608)	(39,999)
Income from operations	18,412	(2,142)	(4,608)	11,662
Interest, net	1,230	-	-	1,230
Income before income tax	19,642	(2,142)	(4,608)	12,892
Provision for income taxes	(4,727)	176	1,699	(2,852)
Net income	14,915	(1,966)	(2,909)	10,040
Earnings per share (assuming dilution)				
Shares outstanding ('000)	1,426,944			1,426,944
Earnings per share – pence	1.05			0.70
Earnings per ADS (assuming dilution)				
ADSs outstanding ('000)	475,648			475,648
Earnings per ADS – cents	5.62			3.78

* intangible amortisation includes £335,000 of in-process research and development write-off