

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

	Quarter ended 30 June 2007 Unaudited £'000	Quarter ended 30 June 2006 Unaudited £'000	Six months ended 30 June 2007 Unaudited £'000	Six months ended 30 June 2006 Unaudited £'000
Revenues				
Product revenues	61,215	61,782	123,515	123,014
Service revenues	4,317	3,948	8,509	7,350
Total revenues	65,532	65,730	132,024	130,364
Cost of revenues				
Product costs	(5,421)	(5,794)	(11,059)	(11,609)
Service costs	(1,636)	(1,610)	(3,226)	(3,162)
Total cost of revenues	(7,057)	(7,404)	(14,285)	(14,771)
Gross profit	58,475	58,326	117,739	115,593
Research and development	(18,460)	(17,445)	(37,457)	(34,901)
Sales and marketing	(11,430)	(10,609)	(23,336)	(20,800)
General and administrative	(12,659)	(13,309)	(25,121)	(23,918)
Restructuring costs	(814)	-	(814)	-
Amortization of intangibles purchased through business combination	(4,612)	(5,086)	(9,267)	(9,673)
Total operating expenses	(47,975)	(46,449)	(95,995)	(89,292)
Income from operations	10,500	11,877	21,744	26,301
Interest	1,520	1,819	2,977	3,492
Profit on disposal of available-for-sale investment	-	5,270	-	5,270
Income before income tax	12,020	18,966	24,721	35,063
Provision for income taxes	(3,173)	(4,770)	(6,297)	(8,907)
Net income	8,847	14,196	18,424	26,156
Earnings per share (assuming dilution)				
Shares outstanding ('000)	1,374,410	1,413,212	1,376,270	1,412,330
Earnings per share – pence	0.6	1.0	1.3	1.9
Earnings per ADS (assuming dilution)				
ADSs outstanding ('000)	458,137	471,071	458,757	470,777
Earnings per ADS – cents	3.9	5.6	8.1	10.3

ARM Holdings plc
Consolidated balance sheet - US GAAP

	30 June 2007 Unaudited £'000	31 December 2006 Audited £'000
Assets		
Current assets:		
Cash and cash equivalents	92,924	90,743
Short-term investments	5,273	18,600
Marketable securities	10,741	19,151
Accounts receivable, net of allowance of £1,815,000 in 2007 and £2,556,000 in 2006	74,986	69,552
Inventory: finished goods	2,552	1,933
Income taxes receivable	5,721	5,761
Prepaid expenses and other assets	17,985	12,668
Total current assets	210,182	218,408
Deferred income taxes	14,145	9,872
Prepaid expenses and other assets	1,154	1,328
Property and equipment, net	11,892	13,970
Goodwill	340,988	349,243
Other intangible assets	48,132	56,027
Investments	3,311	3,855
Total assets	629,804	652,703
Liabilities and shareholders' equity		
Accounts payable	6,005	1,826
Income taxes payable	13,514	5,572
Personnel taxes	1,840	1,408
Accrued liabilities	25,377	33,021
Deferred revenue	32,564	31,485
Total current liabilities	79,300	73,312
Deferred income taxes	3,179	4,744
Total liabilities	82,479	78,056
Shareholders' equity		
Ordinary shares	700	695
Additional paid-in capital	461,620	446,005
Treasury stock, at cost	(88,716)	(58,245)
Retained earnings	197,228	197,874
Accumulated other comprehensive income:		
Unrealized holding gain on available-for-sale securities, net of tax asset of £393,000 (2006: £231,000)	19	394
Cumulative translation adjustment	(23,526)	(12,076)
Total shareholders' equity	547,325	574,647
Total liabilities and shareholders' equity	629,804	652,703

ARM Holdings plc
Consolidated income statement - IFRS

	Six months ended 30 June 2007 Unaudited £'000	Six months ended 30 June 2006 Unaudited £'000 (restated)	Year ended 31 December 2006 Audited £'000 (restated)
Revenues			
Product revenues	123,515	123,014	247,194
Service revenues	8,509	7,350	16,060
Total revenues	132,024	130,364	263,254
Cost of revenues			
Product costs	(11,059)	(11,609)	(24,156)
Service costs (see note 2)	(3,282)	(3,145)	(6,721)
Total cost of revenues	(14,341)	(14,754)	(30,877)
Gross profit	117,683	115,610	232,377
Operating expenses			
Research and development (see note 2)	(42,944)	(39,185)	(84,884)
Sales and marketing (see note 2)	(27,845)	(25,378)	(53,291)
General and administrative (see note 2)	(26,013)	(24,116)	(50,224)
Profit on disposal of available-for-sale security	-	5,270	5,270
Total net operating expenses	(96,802)	(83,409)	(183,129)
Profit from operations	20,881	32,201	49,248
Investment income	2,977	3,492	6,758
Profit before tax	23,858	35,693	56,006
Tax	(6,452)*	(11,060)	(7,850)
Profit for the period	17,406	24,633	48,156
Dividends			
- final 2005 paid at 0.5 pence per share	-	6,918	6,918
- interim 2006 paid at 0.4 pence per share	-	-	5,449
- final 2006 paid at 0.6 pence per share	8,013	-	-
- interim 2007 proposed at 0.8 pence per share	10,615	-	-
Earnings per share			
Basic and diluted earnings	17,406	24,633	48,156
Number of shares ('000)			
Basic weighted average number of shares	1,334,892	1,377,117	1,366,816
Effect of dilutive securities: Share options	33,882	33,777	35,145
Diluted weighted average number of shares	1,368,774	1,410,894	1,401,961
Basic EPS	1.3p	1.8p	3.5p
Diluted EPS	1.3p	1.7p	3.4p

All activities relate to continuing operations.

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

* Tax comprises £7,135,000 of UK taxation and a credit of £683,000 of overseas taxation.

ARM Holdings plc
Consolidated balance sheet - IFRS

	30 June 2007 Unaudited £'000	30 June 2006 Unaudited £'000 (restated)	31 December 2006 Audited £'000 (restated)
Assets			
Current assets:			
Cash and cash equivalents	92,924	95,381	90,743
Financial assets: Short-term investments	5,273	34,976	18,600
Short-term marketable securities	10,741	18,449	19,151
Fair value of currency exchange contracts	512	530	439
Accounts receivable	74,986	72,049	69,552
Prepaid expenses and other assets	17,473	17,571	12,229
Current tax assets	5,721	-	5,761
Inventories: finished goods	2,552	1,939	1,933
Total current assets	210,182	240,895	218,408
Non-current assets:			
Financial assets: Available-for-sale investments	3,311	3,578	3,855
Prepaid expenses and other assets	1,154	1,501	1,328
Property, plant and equipment	8,765	9,320	10,296
Goodwill	418,155	449,041	428,366
Other intangible assets	53,908	72,696	62,913
Deferred tax assets	22,377	12,064	20,279
Total non-current assets	507,670	548,200	527,037
Total assets	717,852	789,095	745,445
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	6,005	3,718	1,826
Current tax liabilities	13,514	13,897	5,572
Accrued and other liabilities	30,001	30,642	39,586
Deferred revenue	32,564	28,347	31,485
Total current liabilities	82,084	76,604	78,469
Net current assets	128,098	164,291	139,939
Non-current liabilities:			
Deferred tax liabilities	3,181	6,102	6,050
Total liabilities	85,265	82,706	84,519
Net assets	632,587	706,389	660,926
Capital and reserves attributable to equity holders of the Company			
Share capital	700	694	695
Share premium account	454,699	447,901	449,195
Share option reserve	61,474	61,474	61,474
Retained earnings	141,419	173,391	161,453
Revaluation reserve	(945)	(734)	(544)
Cumulative translation adjustment	(24,760)	23,663	(11,347)
Total equity	632,587	706,389	660,926

ARM Holdings plc
Consolidated cash flow statement - IFRS

	Six months ended 30 June 2007 Unaudited £'000	Six months ended 30 June 2006 Unaudited £'000 (restated)	Year ended 31 December 2006 Audited £'000 (restated)
Operating activities			
Profit from operations	20,881	32,201	49,248
Depreciation and amortisation of tangible and intangible assets	13,675	13,165	26,726
Profit on disposal of available-for-sale security	-	(5,270)	(5,270)
Loss on disposal of property, plant and equipment	353	64	63
Compensation charge in respect of share-based payments	8,611	7,496	17,437
Provision for doubtful debts	265	66	932
Provision for obsolescence of inventory	69	-	65
Changes in working capital:			
Accounts receivable	(6,830)	(16,414)	(18,986)
Inventories	(688)	(449)	(508)
Prepaid expenses and other assets	(3,571)	(1,674)	1,015
Fair value of currency exchange contracts	(73)	(2,238)	(2,147)
Accounts payable	4,179	1,467	(672)
Deferred revenue	1,072	7,993	11,071
Accrued and other liabilities	(7,400)	1,107	5,373
Cash generated by operations before tax	30,543	37,514	84,347
Income taxes paid	(3,519)	(10,763)	(21,147)
Net cash from operating activities	27,024	26,751	63,200
Investing activities			
Interest received	3,041	3,250	6,636
Purchases of property, plant and equipment	(1,680)	(3,471)	(7,189)
Proceeds on disposal of property, plant and equipment	-	19	31
Purchases of other intangible assets	(1,557)	(827)	(1,370)
Purchases of available-for-sale investments	-	(165)	(165)
Proceeds on disposal of available-for-sale investments	-	5,567	5,567
(Purchase) / maturity of short-term investments	21,737	(20,600)	(4,926)
Purchases of subsidiaries, net of cash acquired	(3,307)	(13,949)	(17,270)
Net cash from / (used in) investing activities	18,234	(30,176)	(18,686)
Financing activities			
Issue of shares	5,509	811	2,106
Proceeds received on issuance of shares from treasury	6,486	12,348	15,754
Purchase of own shares	(45,736)	(29,086)	(76,519)
Dividends paid to shareholders	(8,013)	(6,918)	(12,367)
Net cash used in financing activities	(41,754)	(22,845)	(71,026)
Net increase / (decrease) in cash and cash equivalents	3,504	(26,270)	(26,512)
Cash and cash equivalents at beginning of period	90,743	128,077	128,077
Effect of foreign exchange rate changes	(1,323)	(6,426)	(10,822)
Cash and cash equivalents at end of period	92,924	95,381	90,743

Notes to the Financial Information

(1) Basis of preparation

US GAAP

The financial information prepared in accordance with the Company's US GAAP accounting policies comprises the consolidated balance sheets as of 30 June 2007 and 31 December 2006 and related income statements for the periods then ended, together with related notes. In preparing this financial information management has used the principal accounting policies as set out in the Company's annual financial statements and Form 20-F for the year ended 31 December 2006, except in relation to accounting for sabbatical leave following the adoption of EITF 06-2 on 1 January 2007, whereby the related costs are now accrued over the requisite service period.

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 2007, 30 June 2006 and 31 December 2006 and related consolidated statements of income and cash flows for the periods 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 2006. The 2006 results have been restated to harmonize the Group's treatment of accounting for provisions for sabbatical leave under IFRS and US GAAP following the adoption of EITF 06-2 under US GAAP (as previously no provision for sabbatical leave had been made under IFRS). This has resulted in shareholders' equity at 31 December 2006 being reduced by £2.3 million and the profit for the year ended 31 December 2006 reducing by £0.4 million. The impact on the six months ended 30 June 2007 is a reduction in profit for the period of £0.3 million and a corresponding reduction in shareholders' equity. The Group has chosen not to adopt IAS 34, 'Interim financial statements', in preparing its 2007 interim statements and, therefore, this interim financial information is not in compliance with IFRS.

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

Included within the US GAAP income statement for the quarter ended 30 June 2007 are stock-based compensation charges of £4.8 million: £0.3 million in cost of revenues, £2.8 million in research and development costs, £0.9 million in sales and marketing costs and £0.8 million in general and administrative costs.

Included within the IFRS income statement for the six months ended 30 June 2007 are total share-based payment costs of £9.2 million (six months ended 30 June 2006: £7.5 million; year ended 31 December 2006: £17.4 million), allocated £0.5 million (30 June 2006: £0.5 million; 31 December 2006: £1.0 million) in cost of revenues, £5.4 million (30 June 2006: £4.3 million; 31 December 2006: £10.1 million) in research and development costs, £1.8 million (30 June 2006: £1.5 million; 31 December 2006: £3.5 million) in sales and marketing costs and £1.5 million (30 June 2006: £1.2 million; 31 December 2006: £2.8 million) in general and administrative costs.

Also included within IFRS operating costs for the six months ended 30 June 2007 is amortization of intangibles of £9.8 million (six months ended 30 June 2006: £9.5 million; year ended 31 December 2006: £19.3 million), allocated £5.1 million (30 June 2006: £4.5 million; 31 December 2006: £9.5 million) in research and development costs, £4.4 million (30 June 2006: £4.7 million; 31 December 2006: £9.1 million) in sales and marketing costs and £0.3 million (30 June 2006: £0.3 million; 31 December 2006: £0.7 million) in general and administrative costs.

(3) Accounts receivable

Included within accounts receivable at 30 June 2007 are £30.8 million (31 March 2007: £27.9 million; 31 December 2006: £23.8 million) of amounts recoverable on contracts.

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

	Share capital £'000	Additional paid-in capital £'000	Treasury stock £'000	Retained earnings £'000	Unrealized holding gain £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2007	695	446,005	(58,245)	197,874	394	(12,076)	574,647
Shares issued on exercise of options	5	5,504	-	-	-	-	5,509
Net income	-	-	-	18,424	-	-	18,424
Dividends	-	-	-	(8,013)	-	-	(8,013)
Cumulative effect as a result of adopting EITF 06-2, net of tax*	-	-	-	(2,278)	-	-	(2,278)
Tax effect of option exercises	-	740	-	-	-	-	740
Amortization of deferred compensation	-	7,975	-	-	-	-	7,975
Conversion of liability award to equity award	-	1,396	-	-	-	-	1,396
Issuance of shares from treasury	-	-	15,265	(8,779)	-	-	6,486
Purchase of own shares	-	-	(45,736)	-	-	-	(45,736)

Other comprehensive income:

Unrealized holding losses on
available-for-sale securities (net of tax

benefit of £162,000)	-	-	-	-	(375)	-	(375)
Currency translation adjustment	-	-	-	-	-	(11,450)	(11,450)
At 30 June 2007	700	461,620	(88,716)	197,228	19	(23,526)	547,325

* In accordance with EITF 06-2, the cumulative provision for employee sabbatical leave as at 1 January 2007 is charged directly to retained earnings

(5) Consolidated statement of comprehensive income (US GAAP)

	Q2 2007 £'000	Q1 2007 £'000	Q2 2006 £'000	H1 2007 £'000	H1 2006 £'000
Net income	8,847	9,577	14,196	18,424	26,156
Realized gain on available-for-sale security, net of tax	-	-	-	-	(2,375)
Unrealized holding losses on available-for-sale security, net of tax	(145)	(230)	95	(375)	(1,280)
Currency translation adjustment	(10,523)	(927)	(31,894)	(11,450)	(37,789)
Total comprehensive income / (loss)	(1,821)	8,420	(17,603)	6,599	(15,288)

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

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Retained earnings £'000	Reval- uation reserve £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2007 (as reported)	695	449,195	61,474	163,731	(544)	(11,347)	663,204
Restatement	-	-	-	(2,278)	-	-	(2,278)
At 1 January 2007 (as restated)	695	449,195	61,474	161,453	(544)	(11,347)	660,926
Dividends	-	-	-	(8,013)	-	-	(8,013)
Movement on tax arising on share options	-	-	-	1,212	-	-	1,212
Purchase of own shares	-	-	-	(37,593)	-	-	(37,593)
Appropriation for future cancellation of shares	-	-	-	(8,143)	-	-	(8,143)
Proceeds from sale of own shares	-	-	-	6,486	-	-	6,486
Unrealised holding losses on available-for-sale investments (net of deferred tax of £162,000)	-	-	-	-	(401)	-	(401)
Currency translation adjustment	-	-	-	-	-	(13,413)	(13,413)
Total expense recognized directly in equity in 2007	-	-	-	(46,051)	(401)	(13,413)	(59,865)
Shares issued on exercise of options	5	5,504	-	-	-	-	5,509
Profit for the period	-	-	-	17,406	-	-	17,406
Credit in respect of employee share schemes	-	-	-	8,611	-	-	8,611
At 30 June 2007	700	454,699	61,474	141,419	(945)	(24,760)	632,587

(7) 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.

Where provisional assessments of the fair values of assets and liabilities acquired on acquisition are refined, adjustments to fair values are recorded as prior year adjustments to goodwill under IFRS. Under US GAAP, such revisions are recorded as amendments to goodwill in the subsequent year.

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 tax.

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 exchange, 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 recognized 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, other than to the extent necessary to eliminate any potential negative goodwill under US GAAP.

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. Following the adoption of FAS No. 123 (revised 2004) (FAS 123(R)), "Share-based payment", the unamortised balance has been transferred to additional paid-in capital.

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 FAS 123(R). FAS 123(R) requires the Company to expense share-based payments, including employee stock-options, based on their fair value. The Company has elected to utilize the "modified prospective" method of adoption, such that compensation cost is recognized beginning with the effective date (i) based on the requirements of FAS 123(R) for all share-based payments granted after the effective date and (ii) based on the requirements of FAS 123(R) for all awards granted to employees prior to the effective date of FAS 123(R) that remain unvested on the effective date.

Some awards made by the Company are liability-classified awards under FAS 123(R) as either: (i) there is an obligation to settle a fixed monetary amount in a variable number of shares; or (ii) the award is indexed to a factor other than performance, market or service condition. The fair value of these awards is remeasured at each period end until the award has vested. Once the award has vested, or for (i) above when number of shares becomes fixed, the award becomes equity-classified.

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 remuneration 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-based remuneration Under IFRS, employer's taxes that are payable on the exercise or vesting of share-based remuneration are provided for over the vesting period of the related option or award. Under US GAAP, such taxes are accounted for when the option or award is exercised or vests respectively.

Accrued legal costs Under IFRS, future legal fees that the Company is expecting to incur on current cases are accrued when the obligating event giving rise to the legal costs has occurred. Under US GAAP, such costs are charged to the income statement in the period in which the costs are incurred.

Enactment of tax rate changes Under IFRS, when a change in statutory corporate tax rate occurs, the impact on deferred tax balances which are expected to reverse after the rate has changed is accounted for when the change has been substantially enacted. Under US GAAP, the impact is accounted for once the rate change has been fully enacted.

Sabbatical leave The Company has adopted EITF 06-2 from 1 January 2007 in accounting for its provisions for employee sabbatical leave. To harmonize the accounting treatment under both GAAPs, the Company has also provided for sabbatical leave under IFRS. EITF 06-2 requires the opening provision at the beginning of the year to be charged directly to reserves, whilst under IFRS, the prior year results have been restated.

Reconciliation of IFRS profit to US GAAP net income	Six months ended 30 June 2007 Unaudited £'000	Six months ended 30 June 2006 Unaudited £'000 (restated)	Year ended 31 December 2006 Audited £'000 (restated)
Profit for financial period as reported under IFRS	17,406	24,633	48,156
Adjustments for:			
Amortisation of intangibles	491	398	914
Write-off of in-process research and development	-	(540)	(595)
Deduct : US GAAP compensation charge in respect of all share-based payments	(8,504)	(8,211)	(21,787)
Add: IFRS compensation charge in respect of all share-based payments	8,611	7,496	17,437
Employer's taxes on share-based remuneration	620	(2)	8
Provision for legal costs, net of tax	(238)	-	715
Foreign exchange on contingent consideration	(14)	(97)	(104)
Provision for sabbatical leave, net of tax	-	216	432
Tax on UK and US share options	(851)	-	(2,204)
Tax difference on amortisation of intangibles	(203)	(165)	(378)
Tax difference on share-based remuneration	709	2,428	2,569
Other tax differences based on enacted rates	397	-	-
Net income as reported under US GAAP	18,424	26,156	45,163

Reconciliation of shareholders' equity from IFRS to US GAAP	30 June 2007 Unaudited £'000	30 June 2006 Unaudited £'000 (restated)	31 December 2006 Audited £'000 (restated)
Shareholders' equity as reported under IFRS	632,587	706,389	660,926
Adjustments for:			
Employer's taxes on share-based remuneration	658	28	38
Utilisation of restructuring provision	1,368	1,368	1,368
Provision for legal costs, net of tax	477	-	715
Liability-classified share awards	(1,549)	-	(2,416)
Provision for sabbatical leave, net of tax	-	2,062	2,278
Cumulative difference on amortisation of goodwill	2,713	2,713	2,713
Cumulative difference on amortisation of intangibles	1,846	840	1,355
Cumulative write-off of in-process research and development	(4,692)	(4,637)	(4,692)
Cumulative difference on deferred tax	(616)	(429)	(642)
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	(9,331)	(4,307)	(8,911)
Portion of tax benefit arising on exercise of options issued on			

acquisition taken to goodwill under US GAAP	(4,844)	(4,844)	(4,844)
Foreign exchange on valuation of intangible assets and deferred tax	3,322	(3,312)	1,358
Foreign exchange on valuation of contingent consideration	(76)	(57)	(61)

Shareholders' equity as reported under US GAAP	547,325	621,276	574,647
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Reconciliation of goodwill from IFRS to US GAAP	30 June 2007 Unaudited £'000	30 June 2006 Unaudited £'000	31 December 2006 Audited £'000
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Goodwill as reported under IFRS	418,155	449,041	428,366
Adjustments for:			
Valuation of restructuring provision on acquisition	1,235	1,235	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)	(4,248)	(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	(3,088)	(1,864)	(3,117)
Foreign exchange on revaluation of goodwill	2,781	(3,685)	854

Goodwill as reported under US GAAP	340,988	366,632	349,243
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(8) 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 acquisition-related charges, stock-based compensation and restructuring charges and profit on disposal of available-for-sale investments. All figures in £'000 unless otherwise stated.

	(8.1) Q2 2007	(8.2) Q1 2007	(8.3) Q2 2006	(8.4) 1H 2007	(8.5) 1H 2006
Income from operations (US GAAP)	10,500	11,244	11,877	21,744	26,301
Restructuring costs	814	-	-	814	-
Acquisition-related charge – amortization of intangibles	4,612	4,655	5,086	9,267	9,673
Acquisition-related charge – other payments	209	397	-	606	-
Stock-based compensation and related payroll taxes	4,807	3,872	4,223	8,679	8,211
Normalised income from operations	20,942	20,168	21,186	41,110	44,185
As % of revenue	32.0%	30.3%	32.2%	31.1%	33.9%
	(8.6) Q2 2007	(8.7) Q1 2007	(8.8) Q2 2006	(8.9) 1H 2007	(8.10) 1H 2006
Income before income tax (US GAAP)	12,020	12,701	18,966	24,721	35,063
Restructuring costs	814	-	-	814	-
Acquisition-related charge – amortization of intangibles	4,612	4,655	5,086	9,267	9,673
Acquisition-related charge – other payments	209	397	-	606	-
Stock-based compensation and related payroll taxes	4,807	3,872	4,223	8,679	8,211
Profit on sale of available-for-sale investment	-	-	(5,270)	-	(5,270)
Normalised income before income tax	22,462	21,625	23,005	44,087	47,677

(8.11) (8.12) (8.13)

	30 June 2007	31 March 2007	31 December 2006
Cash and cash equivalents	92,924	92,595	90,743
Short-term investments	5,273	19,069	18,600
Short-term marketable securities	10,741	15,117	19,151
Normalised cash	108,938	126,781	128,494

	(8.14) Q2 2007	(8.15) Q1 2007	(8.16) Q2 2006	(8.17) 1H 2007	(8.18) 1H 2006
Normalised cash at end of period (as above)	108,938	126,781	148,806	108,938	148,806
Less: Normalised cash at beginning of period	(126,781)	(128,494)	(182,282)	(128,494)	(160,902)
Add back: Cash outflow from acquisitions (net of cash acquired)	689	2,618	13,949	3,307	13,949
Add back: Cash outflow from payment of dividends	8,013	-	6,918	8,013	6,918
Add back: Cash outflow from purchase of own shares	25,577	20,159	22,129	45,736	29,086
Less: Cash inflow from exercise of share options	(6,486)	(5,509)	(2,152)	(11,995)	(13,159)
Less: Cash inflow from sale of available-for-sale investments	-	-	(5,567)	-	(5,567)
Normalised cash generation	9,950	15,555	1,801	25,505	19,131

	(8.19) Q2 2007	(8.20) Q1 2007	(8.21) Q2 2006	(8.22) 1H 2007	(8.23) 1H 2006
Net income (US GAAP)	8,847	9,577	14,196	18,424	26,156
Restructuring costs	814	-	-	814	-
Acquisition-related charge – amortization of intangibles	4,612	4,655	5,086	9,267	9,673
Acquisition-related charge – other payments	209	397	-	606	-
Stock-based compensation and related payroll taxes	4,807	3,872	4,223	8,679	8,211
Profit on sale of available-for-sale investment	-	-	(5,270)	-	(5,270)
Estimated tax impact of above charges	(3,058)	(2,849)	(972)	(5,907)	(3,436)
Normalised net income	16,231	15,652	17,263	31,883	35,334
Dilutive shares ('000)	1,374,410	1,377,589	1,413,212	1,376,270	1,412,330
Normalised diluted EPS	1.18p	1.14p	1.22p	2.32p	2.50p

(8.24) Normalised income statement for Q2 2007

	Normalised	Stock-based compensation	Intangible amortisation	Other acquisition related charges	Restructuring charges	US GAAP
	£'000	£'000	£'000	£'000	£'000	£'000
Revenues						
Product revenues	61,215	-	-	-	-	61,215
Service revenues	4,317	-	-	-	-	4,317
Total revenues	65,532	-	-	-	-	65,532
Cost of revenues						
Product costs	(5,421)	-	-	-	-	(5,421)
Service costs	(1,351)	(285)	-	-	-	(1,636)
Total cost of revenues	(6,772)	(285)	-	-	-	(7,057)
Gross profit	58,760	(285)	-	-	-	58,475
Research and development	(15,469)	(2,796)	-	(195)	-	(18,460)
Sales and marketing	(10,472)	(958)	-	-	-	(11,430)
General and administrative	(11,877)	(768)	-	(14)	-	(12,659)
Restructuring costs	-	-	-	-	(814)	(814)
Amortization of intangibles purchased through business combination	-	-	(4,612)	-	-	(4,612)
Total operating expenses	(37,818)	(4,522)	(4,612)	(209)	(814)	(47,975)
Income from operations	20,942	(4,807)	(4,612)	(209)	(814)	10,500
Interest	1,520	-	-	-	-	1,520
Income before income tax	22,462	(4,807)	(4,612)	(209)	(814)	12,020
Provision for income taxes	(6,231)	887	1,778	68	325	(3,173)
Net income	16,231	(3,920)	(2,834)	(141)	(489)	8,847
Earnings per share (assuming dilution)						
Shares outstanding ('000)	1,374,410					1,374,410
Earnings per share – pence	1.18					0.64
Earnings per ADS (assuming dilution)						
ADSs outstanding ('000)	458,137					458,137
Earnings per ADS – cents	7.11					3.87

(8.25) Normalised income statement for Q2 2006

	Normalised	Stock-based compens- ation	Intangible amortisa- tion	Investment disposal	US GAAP
	£'000	£'000	£'000	£'000	£'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)
Amortization 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	1,819	-	-	-	1,819
Profit on disposal of available-for-sale investment	-	-	-	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

(8.26) Normalised income statement for 1H 2007

	Normalised	Stock-based compensation	Intangible amortisation	Other acquisition related charges	Restructuring charges	US GAAP
	£'000	£'000	£'000	£'000	£'000	£'000
Revenues						
Product revenues	123,515	-	-	-	-	123,515
Service revenues	8,509	-	-	-	-	8,509
Total revenues	132,024	-	-	-	-	132,024
Cost of revenues						
Product costs	(11,059)	-	-	-	-	(11,059)
Service costs	(2,709)	(517)	-	-	-	(3,226)
Total cost of revenues	(13,768)	(517)	-	-	-	(14,285)
Gross profit	118,256	(517)	-	-	-	117,739
Research and development	(32,058)	(5,042)	-	(357)	-	(37,457)
Sales and marketing	(21,604)	(1,732)	-	-	-	(23,336)
General and administrative	(23,484)	(1,388)	-	(249)	-	(25,121)
Restructuring costs	-	-	-	-	(814)	(814)
Amortization of intangibles purchased through business combination	-	-	(9,267)	-	-	(9,267)
Total operating expenses	(77,146)	(8,162)	(9,267)	(606)	(814)	(95,995)
Income from operations	41,110	(8,679)	(9,267)	(606)	(814)	21,744
Interest	2,977	-	-	-	-	2,977
Income before income tax	44,087	(8,679)	(9,267)	(606)	(814)	24,721
Provision for income taxes	(12,204)	1,824	3,574	184	325	(6,297)
Net income	31,883	(6,855)	(5,693)	(422)	(489)	18,424
Earnings per share (assuming dilution)						
Shares outstanding ('000)	1,376,270					1,376,270
Earnings per share – pence	2.32					1.34
Earnings per ADS (assuming dilution)						
ADSs outstanding ('000)	458,757					458,757
Earnings per ADS – cents	13.94					8.06

(8.27) Normalised income statement for 1H 2006

	Normalised	Stock-based compens- ation	Intangible amortisa- tion	Investment disposal	US GAAP
	£'000	£'000	£'000	£'000	£'000
Revenues					
Product revenues	123,014	-	-	-	123,014
Service revenues	7,350	-	-	-	7,350
Total revenues	130,364	-	-	-	130,364
Cost of revenues					
Product costs	(11,609)	-	-	-	(11,609)
Service costs	(2,669)	(493)	-	-	(3,162)
Total cost of revenues	(14,278)	(493)	-	-	(14,771)
Gross profit	116,086	(493)	-	-	115,593
Research and development	(30,139)	(4,762)	-	-	(34,901)
Sales and marketing	(19,158)	(1,642)	-	-	(20,800)
General and administrative	(22,604)	(1,314)	-	-	(23,918)
Amortization of intangibles purchased through business combination	-	-	(9,673)	-	(9,673)
Total operating expenses	(71,901)	(7,718)	(9,673)	-	(89,292)
Income from operations	44,185	(8,211)	(9,673)	-	26,301
Interest	3,492	-	-	-	3,492
Profit on disposal of available-for-sale investment	-	-	-	5,270	5,270
Income before income tax	47,677	(8,211)	(9,673)	5,270	35,063
Provision for income taxes	(12,343)	1,288	3,611	(1,463)	(8,907)
Net income	35,334	(6,923)	(6,062)	3,807	26,156
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,412,330				1,412,330
Earnings per share – pence	2.50				1.85
Earnings per ADS (assuming dilution)					
ADSs outstanding ('000)	470,777				470,777
Earnings per ADS – cents	13.88				10.28