

**ARM Holdings plc**  
**Fourth Quarter and Annual Results – US GAAP**

	Quarter ended 31 December 2006 Unaudited £'000	Quarter ended 31 December 2005 Unaudited £'000	Year ended 31 December 2006 Unaudited £'000	Year ended 31 December 2005 Audited £'000
<b>Revenues</b>				
Product revenues	63,582	58,828	247,194	217,711
Service revenues	4,462	4,065	16,060	14,728
<b>Total revenues</b>	<b>68,044</b>	<b>62,893</b>	<b>263,254</b>	<b>232,439</b>
<b>Cost of revenues</b>				
Product costs	(5,933)	(4,313)	(24,156)	(19,265)
Service costs	(1,946)	(1,579)	(6,721)	(6,093)
<b>Total cost of revenues</b>	<b>(7,879)</b>	<b>(5,892)</b>	<b>(30,877)</b>	<b>(25,358)</b>
<b>Gross profit</b>	<b>60,165</b>	<b>57,001</b>	<b>232,377</b>	<b>207,081</b>
Research and development	(22,868)	(15,613)	(75,498)	(60,051)
Sales and marketing	(12,638)	(9,061)	(44,198)	(34,102)
General and administrative	(12,189)	(10,959)	(48,643)	(37,558)
Deferred stock-based compensation	-	(2,465)	-	(9,727)
Amortization of intangibles purchased through business combination	(4,700)	(4,809)	(19,018)	(17,726)
<b>Total operating expenses</b>	<b>(52,395)</b>	<b>(42,907)</b>	<b>(187,357)</b>	<b>(159,164)</b>
<b>Income from operations</b>	<b>7,770</b>	<b>14,094</b>	<b>45,020</b>	<b>47,917</b>
Interest	1,581	1,684	6,758	5,317
Profit on disposal of available-for-sale security	-	-	5,270	-
<b>Income before income tax and cumulative effect of accounting change</b>	<b>9,351</b>	<b>15,778</b>	<b>57,048</b>	<b>53,234</b>
Provision for income taxes	2,712	(2,801)	(9,438)	(11,354)
<b>Net income before cumulative effect of accounting change</b>	<b>12,063</b>	<b>12,977</b>	<b>47,610</b>	<b>41,880</b>
Cumulative effect of accounting change, net of tax	-	-	(2,447)	-
<b>Net income after cumulative effect of accounting change</b>	<b>12,063</b>	<b>12,977</b>	<b>45,163</b>	<b>41,880</b>
<b>Other comprehensive income:</b>				
Foreign currency adjustments	(25,290)	16,538	(68,128)	58,561
Unrealized holding gain/(loss) on available-for- sale securities, net of tax benefit of £66,000 (Q4 2005: charge £236,000; FY 2006: £476,000; FY 2005: £981,000)	(156)	452	(1,090)	(2,316)
<b>Total comprehensive income / (loss)</b>	<b>(13,383)</b>	<b>29,967</b>	<b>(24,055)</b>	<b>98,125</b>
<b>Earnings per share (assuming dilution)</b>				
Shares outstanding ('000)	1,380,581	1,431,084	1,404,751	1,427,036
Earnings per share – pence	0.9	0.9	3.2	2.9
<b>Earnings per ADS (assuming dilution)</b>				
ADSs outstanding ('000)	460,194	477,028	468,250	475,679
Earnings per ADS – cents	5.1	4.7	18.9	15.1

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

	31 December 2006 Unaudited £'000	31 December 2005 Audited £'000
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	90,743	128,077
Short-term investments	18,600	23,990
Marketable securities	19,151	8,835
Accounts receivable, net of allowance of £2,556,000 in 2006 and £2,173,000 in 2005	69,552	55,518
Inventory: finished goods	1,933	1,490
Income taxes receivable	5,761	-
Prepaid expenses and other assets	12,668	12,567
Total current assets	218,408	230,477
Deferred income taxes	9,872	4,422
Prepaid expenses and other assets	1,328	1,674
Property and equipment, net	13,970	12,803
Goodwill	349,243	385,572
Other intangible assets	56,027	72,345
Investments	3,855	8,800
Total assets	652,703	716,093
<b>Liabilities and shareholders' equity</b>		
Accounts payable	1,826	2,221
Income taxes payable	5,572	10,826
Personnel taxes	1,408	1,329
Accrued liabilities	33,021	25,024
Deferred revenue	31,485	20,354
Total current liabilities	73,312	59,754
Deferred income taxes	4,744	7,289
Total liabilities	78,056	67,043
<b>Shareholders' equity</b>		
Ordinary shares	694	693
Additional paid-in capital	444,711	425,252
Deferred compensation	-	(4,404)
Treasury stock, at cost	(55,363)	(16,315)
Retained earnings	196,287	183,913
Accumulated other comprehensive income:		
Unrealized holding gain on available-for-sale securities, net of tax of £230,000 (2005: £1,096,000)	394	3,859
Cumulative translation adjustment	(12,076)	56,052
Total shareholders' equity	574,647	649,050
Total liabilities and shareholders' equity	652,703	716,093

**ARM Holdings plc**  
**Consolidated income statement - IFRS**

	Year ended 31 December 2006 Unaudited £'000	Year ended 31 December 2005 Audited £'000
<b>Revenues</b>		
Product revenues	247,194	217,711
Service revenues	16,060	14,728
Total revenues	263,254	232,439
<b>Cost of revenues</b>		
Product costs	(24,156)	(19,265)
Service costs (see note 2)	(6,669)	(7,345)
Total cost of revenues	(30,825)	(26,610)
<b>Gross profit</b>	232,429	205,829
<b>Operating expenses</b>		
Research and development (see note 2)	(84,494)	(80,273)
Sales and marketing (see note 2)	(53,180)	(47,389)
General and administrative (see note 2)	(50,127)	(43,010)
Profit on disposal of available-for-sale security	5,270	-
Total net operating expenses	(182,531)	(170,672)
<b>Profit from operations</b>	49,898	35,157
Investment income	6,758	5,317
<b>Profit before tax</b>	56,656	40,474
Tax*	(8,068)	(10,827)
<b>Profit for the year</b>	48,588	29,647
<b>Dividends</b>		
- final 2004 paid (on 6 May 2005) at 0.42 pence per share	-	5,759
- interim 2005 paid (on 7 October 2005) at 0.34 pence per share	-	4,677
- final 2005 paid (on 5 May 2006) at 0.5 pence per share	6,918	-
- interim 2006 paid (on 6 October 2006) at 0.4 pence per share	5,449	-
<b>Earnings per share</b>		
Basic and diluted earnings	48,588	29,647
<b>Number of shares ('000)</b>		
Basic weighted average number of shares	1,366,816	1,369,335
Effect of dilutive securities:		
Share options	35,145	55,027
Diluted weighted average number of shares	1,401,961	1,424,362
<b>Basic EPS</b>	3.6p	2.2p
<b>Diluted EPS</b>	3.5p	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 £7.2 million of UK taxation and a credit of £0.9 million of overseas taxation.

**ARM Holdings plc**  
**Consolidated balance sheet - IFRS**

	31 December 2006 Unaudited £'000	31 December 2005 Audited £'000
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	90,743	128,077
Financial assets: Short-term investments	18,600	23,990
Short-term marketable securities	19,151	8,835
Fair value of currency exchange contracts	439	-
Accounts receivable	69,552	55,518
Prepaid expenses and other assets	12,229	12,567
Current tax assets	5,761	-
Inventories: finished goods	1,933	1,490
<b>Total current assets</b>	<b>218,408</b>	<b>230,477</b>
Non-current assets:		
Financial assets: Available-for-sale investments	3,855	8,800
Prepaid expenses and other assets	1,328	1,674
Property, plant and equipment	10,296	8,990
Goodwill	428,366	474,430
Other intangible assets	62,913	79,743
Deferred tax assets	19,090	13,633
<b>Total non-current assets</b>	<b>525,848</b>	<b>587,270</b>
<b>Total assets</b>	<b>744,256</b>	<b>817,747</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	1,826	2,221
Current tax liabilities	5,572	10,826
Accrued and other liabilities	36,119	26,598
Financial liabilities: Fair value of currency exchange contracts	-	1,708
Deferred revenue	31,485	20,354
<b>Total current liabilities</b>	<b>75,002</b>	<b>61,707</b>
<b>Net current assets</b>	<b>143,406</b>	<b>168,770</b>
Non-current liabilities:		
Deferred tax liabilities	6,050	9,193
<b>Total liabilities</b>	<b>81,052</b>	<b>70,900</b>
<b>Net assets</b>	<b>663,204</b>	<b>746,847</b>
<b>Capital and reserves attributable to equity holders of the Company</b>		
Share capital	694	693
Share premium account	447,901	447,091
Share option reserve	61,474	61,474
Retained earnings	165,026	166,656
Revaluation reserve	(544)	2,921
Cumulative translation adjustment	(11,347)	68,012
<b>Total equity</b>	<b>663,204</b>	<b>746,847</b>

**ARM Holdings plc**  
**Consolidated cash flow statement - IFRS**

	Year ended 31 December 2006 Unaudited £'000	Year ended 31 December 2005 Audited £'000
<b>Operating activities</b>		
Profit from operations	49,898	35,157
Depreciation and amortisation of tangible and intangible assets	26,726	28,608
Profit on disposal of available-for-sale security	(5,270)	-
Loss on disposal of property, plant and equipment	63	16
Impairment of available-for sale investments	-	337
Compensation charge in respect of share-based payments	17,437	20,863
Provision for doubtful debts	255	722
Provision for obsolescence of inventory	65	22
Changes in working capital:		
Accounts receivable	(18,082)	(21,247)
Inventories	(508)	(519)
Prepaid expenses and other assets	1,015	(61)
Fair value of currency exchange contracts	(2,147)	3,382
Accounts payable	(672)	(1,931)
Deferred revenue	10,844	(2,043)
Accrued and other liabilities	4,723	(7,199)
Cash generated by operations before tax	84,347	56,107
Income taxes paid	(21,147)	(14,447)
<b>Net cash from operating activities</b>	63,200	41,660
<b>Investing activities</b>		
Interest received	6,636	5,444
Purchases of property, plant and equipment	(7,189)	(5,492)
Proceeds on disposal of property, plant and equipment	31	37
Purchases of other intangible assets	(1,370)	(572)
Purchases of available-for-sale investments	(165)	(274)
Proceeds on disposal of available-for-sale investments	5,567	96
Purchase of short-term investments	(4,926)	(599)
Purchases of subsidiaries, net of cash acquired	(17,270)	(20,304)
<b>Net cash used in investing activities</b>	(18,686)	(21,664)
<b>Financing activities</b>		
Issue of shares	811	13,921
Purchase of own shares	(76,519)	(16,211)
Issue of treasury shares	17,049	-
Dividends paid to shareholders	(12,367)	(10,436)
<b>Net cash used in financing activities</b>	(71,026)	(12,726)
<b>Net (decrease) / increase in cash and cash equivalents</b>	(26,512)	7,270
Cash and cash equivalents at beginning of year	128,077	110,561
Effect of foreign exchange rate changes	(10,822)	10,246
<b>Cash and cash equivalents at end of year</b>	90,743	128,077

## Notes to the Financial Information

### (1) Basis of preparation

#### US GAAP

The financial information prepared in accordance with the Group's US GAAP accounting policies comprises the consolidated balance sheets as of 31 December 2006 and 31 December 2005 and related income statements for the years then ended, together with related notes. In preparing this financial information management has used the principal accounting policies as set out in the Group's annual financial statements and form 20-F for the year ended 31 December 2005, except in relation to changes in respect of accounting for share-based payments following the adoption of FAS123(R) on 1 January 2006. The Group has elected to use the modified prospective methodology in its application of this standard.

In order to aid comparability, the 2005 income statement caption "Deferred stock-based compensation" has not been re-analysed between the functional expenses categories in this press release. In the Group's financial statements on form 20-F, it is expected that this item will be re-analysed as follows: £4.4 million within cost of sales, £1.4 million within research and development costs, £1.6 million within sales and marketing costs and £2.3 million within general and administrative costs.

#### International Financial Reporting Standards

The financial information prepared in accordance with the Group's IFRS accounting policies comprises the consolidated balance sheets as of 31 December 2006 and 31 December 2005 and related consolidated statements of income and cash flows for the years 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.

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

Included within the US GAAP income statement for the quarter ended 31 December 2006 are share-based compensation charges of £6.2 million: £0.4 million in cost of revenues, £3.6 million in research and development costs, £1.2 million in sales and marketing costs and £1.0 million in general and administrative costs.

Included within the US GAAP income statement for the year ended 31 December 2006 are share-based compensation charges of £21.8 million: £1.1 million in cost of revenues, £10.6 million in research and development costs, £3.7 million in sales and marketing costs, £2.9 million in general and administrative costs and £3.5 million within the cumulative effect of accounting change. This charge on accounting change arises as a re-measurement adjustment for liability-classified awards on cumulative share-based compensation for earlier years on adoption of FAS123(R).

Included within the IFRS income statement for the year ended 31 December 2006 are total share-based payment costs of £17.4 million (year ended 31 December 2005: £20.9 million), allocated £1.0 million (2005: £1.3 million) in cost of revenues, £10.1 million (2005: £12.1 million) in research and development costs, £3.5 million (2005: £4.2 million) in sales and marketing costs and £2.8 million (2005: £3.3 million) in general and administrative costs.

Also included within IFRS operating costs for the year ended 31 December 2006 is amortization of intangibles acquired on acquisition of £19.3 million (year ended 31 December 2005: £17.9 million), allocated £9.5 million (2005: £8.1 million) in research and development costs, £9.1 million (2005: £9.1 million) in sales and marketing costs and £0.7 million (2005: £0.7 million) in general and administrative costs.

### (3) Accounts receivable

Included within accounts receivable at 31 December 2006 are £23.8 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 £'000	Treasury stock £'000	Retained earnings £'000	Unrealized 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	-	-	-	-	45,163	-	-	45,163
Dividends	-	-	-	-	(12,367)	-	-	(12,367)
Realized gain on available-for-sale security	-	-	-	-	-	(2,375)	-	(2,375)
Unrealized holding losses on available-for-sale securities	-	-	-	-	-	(1,090)	-	(1,090)
Tax effect of option exercises	-	3,682	-	-	-	-	-	3,682
Netting of deferred compensation*	-	(4,404)	4,404	-	-	-	-	-
Amortization of deferred compensation	-	19,371	-	-	-	-	-	19,371
Issuance of shares	-	-	-	37,471	(20,422)	-	-	17,049
Purchase of own shares	-	-	-	(76,519)	-	-	-	(76,519)

Currency translation adjustment	-	-	-	-	-	-	(68,128)	(68,128)
At 31 December 2006	694	444,711	-	(55,363)	196,287	394	(12,076)	574,647

\* FAS123(R) requires that deferred stock-based compensation on the date of adoption be netted against additional paid-in capital.

#### (5) 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 reserve £'000	Total £'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	-	-	-	48,588	-	-	48,588
Dividends	-	-	-	(12,367)	-	-	(12,367)
Credit in respect of employee share schemes	-	-	-	17,437	-	-	17,437
Movement on deferred tax arising on outstanding share options	-	-	-	4,182	-	-	4,182
Purchase of own shares	-	-	-	(76,519)	-	-	(76,519)
Proceeds from sale of own shares	-	-	-	17,049	-	-	17,049
Realized gain on available-for-sale security	-	-	-	-	(2,375)	-	(2,375)
Unrealized holding losses on available-for-sale investments (net of deferred tax of £477,000)	-	-	-	-	(1,090)	-	(1,090)
Currency translation adjustment	-	-	-	-	-	(79,359)	(79,359)
At 31 December 2006	694	447,901	61,474	165,026	(544)	(11,347)	663,204

#### (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 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 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 FAS123(R), 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 No. 123 (revised 2004) (FAS123(R)), "Share-based payment". FAS123(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 FAS123(R) for all share-based payments granted after the effective date and (ii) based on the requirements of FAS123(R) for all awards granted to employees prior to the effective date of FAS123(R) that remain unvested on the effective date.

Some awards made by the Company are liability-classified awards under FAS123(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 re-measured 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.

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 the LTIP grants, 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 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 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.

**Provisions for 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.



**Reconciliation of IFRS profit to US GAAP net income**

	<b>Year ended 31 December 2006 Unaudited £'000</b>	<b>Year ended 31 December 2005 Audited £'000</b>
<b>Profit for financial period as reported under IFRS</b>	48,588	29,647
Adjustments for:		
Amortisation of intangibles	914	548
Write-off of in-process research and development	(595)	(335)
Deduct: US GAAP compensation charge in respect of LTIP	-	(3,814)
Deduct : US GAAP compensation charge in respect of SAYE schemes	-	(417)
Deduct : US GAAP deferred stock-based compensation re acquisition	-	(5,496)
Deduct : US GAAP compensation charge in respect of all share-based payments	(21,787)	-
Add: IFRS compensation charge in respect of all share-based payments	17,437	20,863
Employer's taxes on share options	8	3
Utilisation of restructuring provision	-	1,368
Provision for legal costs (net of tax)	715	-
Foreign exchange on contingent consideration	(104)	40
Tax on share option exercises	(2,204)	(370)
Tax difference on amortisation of intangibles	(378)	(248)
Tax difference on share-based payments	2,569	91
<b>Net income as reported under US GAAP</b>	<b>45,163</b>	<b>41,880</b>

**Reconciliation of shareholders' equity from IFRS to US GAAP**

	<b>31 December 2006 Unaudited £'000</b>	<b>31 December 2005 Audited £'000</b>
Shareholders' equity as reported under IFRS	663,204	746,847
Adjustments for:		
Employer's taxes on share options	38	30
Utilisation of restructuring provision	1,368	1,368
Provision for legal costs (net of tax)	715	-
Liability-classified share awards	(2,416)	-
Cumulative difference on amortisation of goodwill	2,713	2,713
Cumulative difference on amortisation of intangibles	1,355	441
Cumulative write-off of in-process research and development	(4,692)	(4,097)
Cumulative difference on deferred tax	(642)	(263)
Valuation of equity consideration on acquisition	(82,435)	(82,435)
Valuation of option consideration on acquisition	17,476	17,476
Deferred compensation on acquisition	(9,579)	(9,579)
Deferred tax on share-based payments	(8,911)	(8,775)
Portion of tax benefit arising on exercise of options issued on acquisition taken to goodwill under US GAAP	(4,844)	(4,844)
Foreign exchange on valuation of intangible assets and deferred tax	1,358	(9,872)
Foreign exchange on valuation of contingent consideration	(61)	40
Shareholders' equity as reported under US GAAP	<b>574,647</b>	<b>649,050</b>

**Reconciliation of goodwill from IFRS to US GAAP**

	<b>31 December 2006 Unaudited £'000</b>	<b>31 December 2005 Audited £'000</b>
Goodwill as reported under IFRS	428,366	474,430
Adjustments for:		

Valuation of restructuring provision on acquisition	1,235	1,235
Cumulative difference on amortisation of goodwill	2,713	2,713
Cumulative write-off of in-process research and development	(150)	(150)
Separately identifiable intangible assets	(302)	(302)
Deferred tax on capitalised in-process research and development	(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)
Valuation of equity consideration on acquisition	(82,435)	(82,435)
Valuation of option consideration on acquisition	17,476	17,476
Deferred compensation on acquisition	(9,579)	(9,579)
Contingent consideration	(3,117)	(1,864)
Foreign exchange on revaluation of goodwill	854	(10,134)
Goodwill as reported under US GAAP	349,243	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 investments. All figures in £'000 unless otherwise stated.

	(7.1) Q4 2006	(7.2) Q3 2006	(7.3) Q4 2005	(7.4) FY 2006	(7.5) FY 2005
Income from operations (US GAAP)	7,770	10,949	14,094	45,020	47,917
Acquisition-related charge – amortization of intangibles	4,700	4,645	4,809	19,018	17,726
Acquisition-related charge – deferred stock-based compensation	-	-	479	-	5,496
Acquisition-related charge – other payments	1,057	-	-	1,057	-
Other stock-based compensation and related payroll taxes	6,177	3,904	2,628	18,292	4,873
<b>Normalised income from operations</b>	<b>19,704</b>	<b>19,498</b>	<b>22,010</b>	<b>83,387</b>	<b>76,012</b>
<b>As % of revenue</b>	<b>29.0%</b>	<b>30.1%</b>	<b>35.0%</b>	<b>31.7%</b>	<b>32.7%</b>

	(7.6) Q4 2006	(7.7) Q3 2006	(7.8) Q4 2005	(7.9) FY 2006	(7.10) FY 2005
Income before income tax (US GAAP)	9,351	12,634	15,778	57,048	53,234
Acquisition-related charge – amortization of intangibles	4,700	4,645	4,809	19,018	17,726
Acquisition-related charge – deferred stock-based compensation	-	-	479	-	5,496
Acquisition-related charge – other payments	1,057	-	-	1,057	-
Other stock-based compensation and related payroll taxes	6,177	3,904	2,628	18,292	4,873
Profit on sale of available-for-sale investment	-	-	-	(5,270)	-
<b>Normalised income before income tax</b>	<b>21,285</b>	<b>21,183</b>	<b>23,694</b>	<b>90,145</b>	<b>81,329</b>

	(7.11) 31 December 2006	(7.12) 30 September 2006	(7.13) 31 December 2005
Cash and cash equivalents	90,743	103,472	128,077
Short-term investments	18,600	26,427	23,990
Short-term marketable securities	19,151	17,520	8,835
<b>Normalised cash</b>	<b>128,494</b>	<b>147,419</b>	<b>160,902</b>

	(7.14) Q4 2006	(7.15) Q3 2006	(7.16) Q4 2005	(7.17) FY 2006	(7.18) FY 2005
Normalised cash at end of period (as above)	128,494	147,419	160,902	128,494	160,902
Less: Normalised cash at beginning of period	(147,419)	(148,806)	(164,737)	(160,902)	(142,817)

Add back: Cash outflow from acquisitions (net of cash acquired)	3,305	16	4,264	17,270	20,304
Add back: Cash outflow from payment of dividends	5,449	-	4,677	12,367	10,436
Add back: Cash outflow from purchase of own shares	25,840	21,593	10,773	76,519	16,211
Less: Cash inflow from exercise of share options	(2,349)	(2,352)	(1,033)	(17,860)	(13,921)
Less: Cash inflow from sale of available-for-sale investments	-	-	-	(5,567)	(96)
<b>Normalised cash generation</b>	<b>13,320</b>	<b>17,870</b>	<b>14,846</b>	<b>50,321</b>	<b>51,019</b>

	(7.19)	(7.20)	(7.21)	(7.22)	(7.23)
	<b>Q4 2006</b>	<b>Q3 2006</b>	<b>Q4 2005</b>	<b>FY 2006</b>	<b>FY 2005</b>
Net income (US GAAP)	12,063	9,391	12,977	45,163	41,880
Acquisition-related charge – amortization of intangibles	4,700	4,645	4,809	19,018	17,726
Acquisition-related charge – deferred stock-based compensation	-	-	479	-	5,496
Acquisition-related charge – other payments	1,057	-	-	1,057	-
Other stock-based compensation and related payroll taxes	6,177	3,904	2,628	21,788	4,873
Profit on sale of available-for-sale investment	-	-	-	(5,270)	-
<b>Estimated tax impact of above charges</b>	<b>(3,477)</b>	<b>(2,375)</b>	<b>(3,346)</b>	<b>(10,336)</b>	<b>(8,912)</b>
<b>Normalised net income</b>	<b>20,520</b>	<b>15,565</b>	<b>17,547</b>	<b>71,420</b>	<b>61,063</b>
Dilutive shares ('000)	1,380,581	1,395,642	1,431,084	1,404,751	1,427,036
<b>Normalised diluted EPS</b>	<b>1.49p</b>	<b>1.12p</b>	<b>1.23p</b>	<b>5.08p</b>	<b>4.28p</b>

(7.24) Normalised income statement for Q4 2006

	Normalised	Stock-based compens- ation	Intangible amortisa- tion	Other acquisition related charges	US GAAP
	£'000	£'000	£'000	£'000	£'000
<b>Revenues</b>					
Product revenues	63,582	-	-	-	63,582
Service revenues	4,462	-	-	-	4,462
Total revenues	68,044	-	-	-	68,044
<b>Cost of revenues</b>					
Product costs	(5,933)	-	-	-	(5,933)
Service costs	(1,575)	(371)	-	-	(1,946)
Total cost of revenues	(7,508)	(371)	-	-	(7,879)
<b>Gross profit</b>	60,536	(371)	-	-	60,165
Research and development	(18,242)	(3,582)	-	(1,044)	(22,868)
Sales and marketing	(11,403)	(1,235)	-	-	(12,638)
General and administrative	(11,187)	(989)	-	(13)	(12,189)
Amortization of intangibles purchased through business combination	-	-	(4,700)	-	(4,700)
<b>Total operating expenses</b>	(40,832)	(5,806)	(4,700)	(1,057)	(52,395)
<b>Income from operations</b>	19,704	(6,177)	(4,700)	(1,057)	7,770
Interest	1,581	-	-	-	1,581
<b>Income before income tax</b>	21,285	(6,177)	(4,700)	(1,057)	9,351
Provision for income taxes	(765)	1,256	1,819	402	2,712
<b>Net income</b>	20,520	(4,921)	(2,881)	(655)	12,063
<b>Earnings per share (assuming dilution)</b>					
Shares outstanding ('000)	1,380,581				1,380,581
Earnings per share – pence	1.49				0.87
<b>Earnings per ADS (assuming dilution)</b>					
ADSs outstanding ('000)	460,194				460,194
Earnings per ADS – cents	8.73				5.13

(7.25) Normalised income statement for Q4 2005

	Normalised	Stock-based compensation	Intangible amortisation	US GAAP
	£'000	£'000	£'000	£'000
<b>Revenues</b>				
Product revenues	58,828	-	-	58,828
Service revenues	4,065	-	-	4,065
Total revenues	62,893	-	-	62,893
<b>Cost of revenues</b>				
Product costs	(4,313)	-	-	(4,313)
Service costs	(1,579)	-	-	(1,579)
Total cost of revenues	(5,892)	-	-	(5,892)
<b>Gross profit</b>	57,001	-	-	57,001
Research and development	(15,454)	(159)	-	(15,613)
Sales and marketing	(8,925)	(136)	-	(9,061)
General and administrative	(10,612)	(347)	-	(10,959)
Deferred stock-based compensation	-	(2,465)	-	(2,465)
Amortization of intangibles purchased through business combination	-	-	(4,809)	(4,809)
<b>Total operating expenses</b>	(34,991)	(3,107)	(4,809)	(42,907)
<b>Income from operations</b>	22,010	(3,107)	(4,809)	14,094
Interest	1,684	-	-	1,684
<b>Income before income tax</b>	23,694	(3,107)	(4,809)	15,778
Provision for income taxes	(6,147)	1,434	1,912	(2,801)
<b>Net income</b>	17,547	(1,673)	(2,897)	12,977
<b>Earnings per share (assuming dilution)</b>				
Shares outstanding ('000)	1,431,084			1,431,084
Earnings per share – pence	1.23			0.91
<b>Earnings per ADS (assuming dilution)</b>				
ADSs outstanding ('000)	477,028			477,028
Earnings per ADS – cents	6.32			4.67

(7.26) Normalised income statement for FY 2006

	Normalised	Stock-based compensation	Intangible amortisation*	Other acquisition related charges	Investment disposal	US GAAP
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenues</b>						
Product revenues	247,194	-	-	-	-	247,194
Service revenues	16,060	-	-	-	-	16,060
Total revenues	263,254	-	-	-	-	263,254
<b>Cost of revenues</b>						
Product costs	(24,156)	-	-	-	-	(24,156)
Service costs	(5,623)	(1,098)	-	-	-	(6,721)
Total cost of revenues	(29,779)	(1,098)	-	-	-	(30,877)
<b>Gross profit</b>	233,475	(1,098)	-	-	-	232,377
Research and development	(63,845)	(10,609)	-	(1,044)	-	(75,498)
Sales and marketing	(40,540)	(3,658)	-	-	-	(44,198)
General and administrative	(45,703)	(2,927)	-	(13)	-	(48,643)
Amortization of intangibles purchased through business combination	-	-	(19,018)	-	-	(19,018)
<b>Total operating expenses</b>	(150,088)	(17,194)	(19,018)	(1,057)	-	(187,357)
<b>Income from operations</b>	83,387	(18,292)	(19,018)	(1,057)	-	45,020
Interest	6,758	-	-	-	-	6,758
Profit on disposal of available-for-sale security	-	-	-	-	5,270	5,270
<b>Income before income tax before cumulative effect of accounting change</b>	90,145	(18,292)	(19,018)	(1,057)	5,270	57,048
Provision for income taxes	(18,725)	3,132	7,216	402	(1,463)	(9,438)
<b>Net income before cumulative effect of accounting change</b>	71,420	(15,160)	(11,802)	(655)	3,807	47,610
Cumulative effect of accounting change, net of tax	-	(2,447)	-	-	-	(2,447)
<b>Net income after cumulative effect of accounting change</b>	71,420	(17,607)	(11,802)	(655)	3,807	45,163
<b>Earnings per share (assuming dilution)</b>						
Shares outstanding ('000)	1,404,751					1,404,751
Earnings per share – pence	5.08					3.22
<b>Earnings per ADS (assuming dilution)</b>						
ADSs outstanding ('000)	468,250					468,250
Earnings per ADS – cents	29.85					18.88

\* intangible amortisation includes £595,000 of in-process research and development write-off

(7.27) Normalised income statement for FY 2005

	Normalised	Stock-based	Intangible	US GAAP
	£'000	compensation	amortisation*	£'000
	£'000	£'000	£'000	£'000
<b>Revenues</b>				
Product revenues	217,711	-	-	217,711
Service revenues	14,728	-	-	14,728
Total revenues	232,439	-	-	232,439
<b>Cost of revenues</b>				
Product costs	(19,265)	-	-	(19,265)
Service costs	(6,093)	-	-	(6,093)
Total cost of revenues	(25,358)	-	-	(25,358)
<b>Gross profit</b>	207,081	-	-	207,081
Research and development	(59,892)	(159)	-	(60,051)
Sales and marketing	(33,966)	(136)	-	(34,102)
General and administrative	(37,211)	(347)	-	(37,558)
Deferred stock-based compensation	-	(9,727)	-	(9,727)
Amortization of intangibles purchased through business combination	-	-	(17,726)	(17,726)
<b>Total operating expenses</b>	(131,069)	(10,369)	(17,726)	(159,164)
<b>Income from operations</b>	76,012	(10,369)	(17,726)	47,917
Interest	5,317	-	-	5,317
<b>Income before income tax</b>	81,329	(10,369)	(17,726)	53,234
Provision for income taxes	(20,266)	1,992	6,920	(11,354)
<b>Net income</b>	61,063	(8,377)	(10,806)	41,880
<b>Earnings per share (assuming dilution)</b>				
Shares outstanding ('000)	1,427,036			1,427,036
Earnings per share – pence	4.28			2.93
<b>Earnings per ADS (assuming dilution)</b>				
ADSs outstanding ('000)	475,679			475,679
Earnings per ADS – cents	22.04			15.12

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