Chances are that you have just used an ARM Powered[™] product within the last hour, minute or second...

ARM®/Annual Report 99.

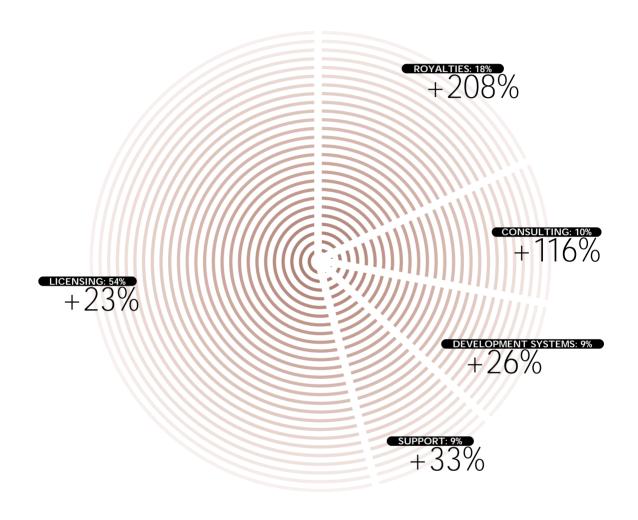
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...whether you were talking on a mobile phone, using a handheld personal organiser, watching satellite TV or surfing the web, ARM's world leading technology is at the heart of an increasingly wide range of digital electronic products which you can experience at work, on the move and at home.

ARM/Digital Vision. ARM has created a scaleable microprocessor architecture – a high-level blueprint of an electronic system which includes hardware, software and silicon details – for the Digital Age. We license this architecture to Semiconductor and Systems manufacturers worldwide, as well as provide supporting software and development tools.

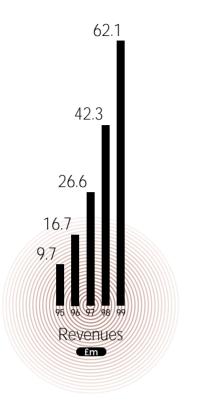
ARM is an intellectual property company whose assets are its people, patent portfolio, design methods and experience rather than physical assets. We are not involved in manufacture, but instead are focused on the creation of ideas and designs.

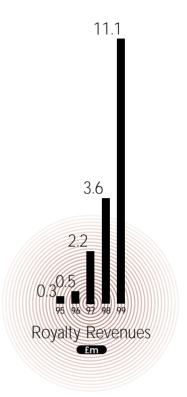
Our goal is to establish ARM as the architecture-of-choice for the Digital World, through close and continuous collaboration with our global network of partners.

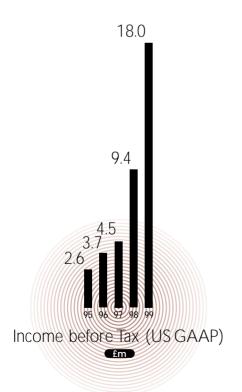


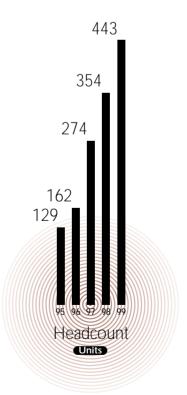
1999 Revenue Breakdown

- Revenues up 47% to £62.1 million (1998: £42.3 million)
- Income before taxation (USGAAP) up 91% to £18.0 million (1998: £9.4 million)
- Trebling of unit shipment growth









ARM/Chairman and Chief Executive's Review. 1999 has been another successful year with further progress toward our goal of becoming the standard embedded microprocessor architecture for the digital age. Our financial results show a 47% growth in revenues to £62.1 million and pre-tax profit growth of more than 90%.

Unit shipments. 1999 saw a further increase in unit shipments of ARM Powered silicon chips by our licensed partners. For the four quarters ended September 1999, for which we now have complete data, 131 million units were shipped, compared to 32 million units for the corresponding period in 1998. Our estimate for the calendar year 1999 is approximately 175 million units compared to 51 million units for the calendar year 1998. Five more licensees began manufacturing ARM microprocessors in 1999 bringing the total number of partners shipping ARM core-based silicon to 19 out of a total 37 partners. We estimate approximately half of those shipping products were supplying to the mobile phone market with the other half selling into markets targeting a broadening range of applications including fax modems, computer networking solutions, information appliances, mini-disc players, mass storage devices, digital cameras, set top boxes, in-car navigation appliances, games machines and printers.

Evolution of the partnership business model. Over the last four years our business has evolved from licensing microprocessor cores to the provision of more complete solutions for end systems companies. In 1999 we experienced significant growth in our development systems and consulting businesses. We also made further progress with our applications software introducing a series of software applications optimised for the ARM architecture such as audio decoder software to run MP3 and Microsoft Audio (music delivery over the Internet) and Dolby digital software.

We acquired Micrologic Solutions Limited, a 25-person applications software house based in Cambridge, UK, in October. The fit of cultures has been excellent and this additional resource will help us drive our applications software activity in 2000.

Bluetooth. We also announced the industry's first family of ARM Powered Ericsson Bluetooth cores, optimised for advanced system-on-chip designs. Under this agreement, ARM and Ericsson are conducting joint product development activities enabling ARM to capitalise on Ericsson's industry leading Bluetooth technology while allowing Ericsson to benefit from ARM's experience of development, supply and support of re-usable intellectual property.

Product development. Product development has continued apace with the development of multiple versions of our ARM7™ and ARM9™ families of microprocessors in both synthesisable and hard macrocell implementations. In May of 1999 we introduced the ARM9E™ processor core. This core has enhanced signal processing capabilities which is particularly useful for a growing range of applications including voice recognition, Internet telephony, automotive and industrial solutions. Progress continued on the ARM10™ architecture, and the first test chips were delivered to us early in January 2000. Throughout the coming year we will continue to optimise its performance, which will give us further licensing opportunities in the future.

We announced a collaboration agreement with Texas Instruments to develop a digital signal processing and microcontroller platform for next-generation wireless information devices such as smart phones, personal communicators and wireless Internet-enabled products.

Intel, our partner in the development of the StrongARM® range of microprocessors, extended their relationship with us, with an architecture license for the latest version of the ARM instruction set (version 5TE) to enable the development of their next generation of microprocessors utilising the ARM architecture.

Organisation. As an intellectual property company, employees are our most important asset and it is vital that we invest in their development and continue to evolve the company culture. We increased headcount by approximately a quarter in 1999 to 443 employees worldwide. Toward the end of the year we appointed a senior human resources executive to continue the development of our global employment policy and ensure optimal motivation, recruitment and retention in the years to come. We also made changes to our sales organisation and our business operations enabling us to manage better the increasing demands being placed upon us, with particular reference to business development, partnership relationships and broader product offerings for the emerging system-on-chip industry.

Corporate developments. 1999 saw a significant change in the shareholding of the Company. Acorn Group plc, which had the largest shareholding in ARM, was acquired by MSDW Investments Limited in a transaction which was completed in June. The transaction involved the de-listing of Acorn Group plc, and its 24% shareholding in ARM was distributed to Acorn's shareholders, many of whom were already ARM shareholders. Our other major founder shareholder, Apple Computer, currently has approximately

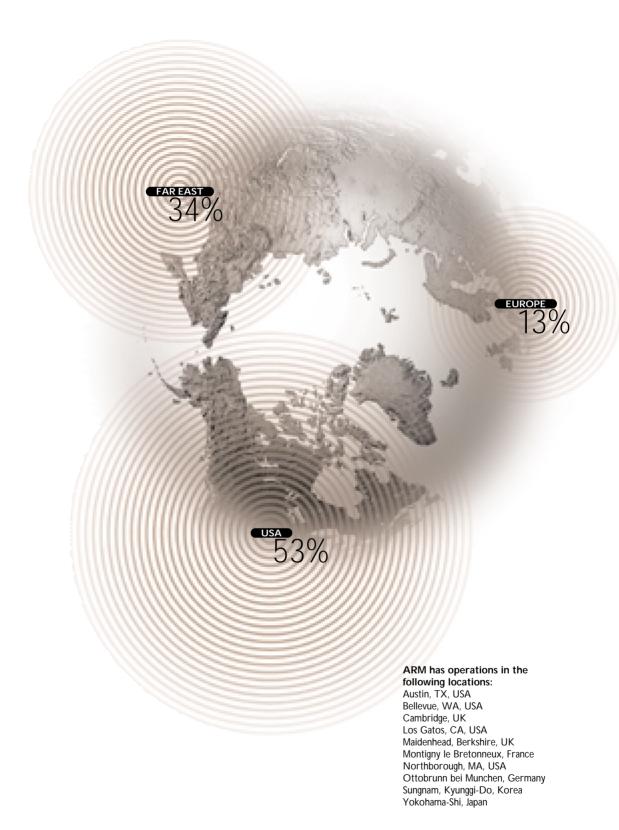
6 ARM/Chairman and Chief Executive's Review.

6% shareholding in the Company so the change in ownership of the Company since listing in April 1998 has been very significant. We now have more than 14,000 shareholders compared to approximately 1,000 a year ago, with financial institutions in Europe and the United States accounting for over 80% of our shareholding, Apple Computer 6% and employees approximately 6%.

Outlook. 2000 has started well as we have signed one agreement for an ARM940T™ core with an existing partner and other agreements are in the pipeline. We have seen a recent increase in publicly announced entrants to the microprocessor market and in view of the high growth potential of this market, it is likely that more will occur in the future. ARM's focus is on the development of re-usable microprocessor designs that give the optimal mix of price, performance and power efficiency in the highest volume sector of the embedded market. ARM cores are becoming a key building block for our silicon and systems partners as they integrate ARM intellectual property into their own technology, to produce more efficient and useful products. As the importance of software, design methodology, operating systems and mainstream design tools continues to grow, ARM's relationships with the leaders in those areas are also key to our success. We anticipate another year of continued growth and progress.

Foli & Sally

Robin Saxby. Chairman and Chief Executive Officer 14 February 2000



Robin Saxby

Chairman and Chief Executive Officer Robin Saxby was involved at the founding of ARM and has served as Chairman, President and Chief Executive Officer since joining the Company full-time in February 1991. Besides directing ARM, Mr Saxby is a board member of Sirius Communications NV, in which ARM is a small shareholder. He was also appointed to the board of Glotel plc as a non-executive director in April 1999. Prior to joining ARM he worked for five years for European Silicon Structures SA, where he was Vice President of Northern Europe, Managing Director of ES2 Limited and President of its USA affiliate, US2. Between 1984 and 1986 he was Chief **Executive Officer of Henderson Security** Systems Limited and before 1984 spent eleven years with Motorola Semiconductors in a variety of sales, marketing and engineering management roles. Mr Saxby also served as Chairman of the Open Microprocessor Initiative Advisory Group, a European Union panel set up to advise on collaborative R&D activity in Europe. Mr Saxby holds a B.Eng. degree in Electronics from Liverpool University.





Lawrence G Tesler Independent Non Executive

Lawrence G Tesler is Chief Executive Officer of Stagecast Software Inc., a privately held company in California. From 1980 to 1997, he worked for Apple Computer, Inc., where he served as Vice President and Chief Scientist. Between 1963 and 1980, he was on the staff of the Xerox Palo Alto Research Center (PARC), the President of a software consulting firm, and a Research Associate at Stanford University, where he received a B.S. degree in 1965. Mr Tesler was a member of the board of the Company from its founding until August 1997 and rejoined the board as Director in March 1998.



Jamie Urquhart Chief Operating Officer

Jamie Urquhart, Chief Operating Officer and Director, has been with ARM since its inception, and was one of the founding engineers of the ARM architecture. He served as Executive Vice President, Sales and Marketing from 1996 to February 1998 when he was appointed Chief Operating Officer. He was appointed to the board of the Company in March 1998. Mr Urquhart joined Acorn in 1984 as a VLSI Design Engineer to work on the ARM Program and in 1985 became Manager of the VLSI Design Group at Acorn. Prior to that he was with Plessey Research, where he worked on analog and digital developments utilizing high speed CMOS, Bipolar and Gallium Arsenide technologies. He holds a BSc from Bath University in Physics and Physical Electronics.

Peter Cawdron

Independent Non Executive

Peter Cawdron was appointed to the board of the Company in March 1998 as an independent non-executive director. From 1983 to 1998 he worked for Grand Metropolitan PLC where he served as Group Strategy Development Director from 1987 and Director of Planning before that. From 1977 to 1983 he was Chief Financial Officer and Director of D'Arcy-MacManus & Masius Worldwide, Inc. Prior to that, he spent seven years at S.G. Warburg & Co., Ltd as a member of the Corporate Finance Department and as Senior General Manager from 1976. From 1961 to 1970 he worked at Peat, Marwick, Mitchell & Co., where he qualified as a Chartered Accountant in 1966. Mr Cawdron also serves as a non-executive director of Compass Group plc, The Tetley Group plc, The Capita Group plc, Welcome Break Ltd and Christian Salvesen plc.





Jonathan Brooks

Chief Financial Officer

Jonathan Brooks joined the Company as Chief Financial Officer in February 1995 and has served as Director since March 1998. Prior to this, he worked for the Accor Group SA where he held senior financial positions including Finance Director of LV Group Limited between 1989 and 1991, Group Management Accountant based in Paris, between 1991 and 1993, and Finance Director of WL Japan KK between 1993 and 1995. Between 1988 and 1989 Mr Brooks was Group Financial Controller of Frederick's Place Holdings PLC. Previously, he had spent seven years with ICI PLC in a variety of financial roles and two years with Grant Thornton Management Consultants. He holds a BSc (Economics) degree from the University of Wales, an MBA from the Manchester Business School, and is an Associate of the Chartered Institute of Management Accountants.



Doug Dunn Independent Non Executive

Doug Dunn was appointed to the board of the Company in December 1998 as an independent non-executive director. He is currently Chairman and Chief Executive Officer of ASM Lithography Holding NV. From 1993 to 1998 he worked for Royal Philips Electronics NV, initially as Chairman and Chief Executive Officer of the Semiconductor division and a member of the Philips Group Management Committee. In 1996 he was appointed Chairman and Chief Executive Officer of the Consumer Electronics division and a member of the Philips board. From 1980 to 1993 Mr Dunn was Managing Director of the Plessey and GEC Semiconductor divisions. Prior to this he worked for Motorola in several engineering and management functions, finally as Operations Manager at their semiconductor facility in Scotland. Mr Dunn has served on the boards of Interconnection Systems Ltd., ASML (Netherlands), TSMC (Taiwanese Semiconductor Manufacturing Company), Allen Clarke Research Centre and JESSI and MEDEA, the two European initiatives in semiconductors and multimedia. He was also President of the European Consumer Electronics Association in 1996. In 1992 he was awarded an OBE by Her Majesty Queen Elizabeth for services to the Electronics Industry.

ARM/Financial Review. In order to comply with applicable UK and US securities regulations, ARM Holdings plc prepares financial statements under both UK and US generally accepted accounting principles (GAAP) both of which are included in this report. The financial statements prepared under UK GAAP can be found on pages 40 to 65 and under US GAAP on pages 74 to 91. A reconciliation of the differences between the two sets of GAAP can be found in note 31 of the UK GAAP financial statements. The following review is based on our UK financial statements.

Revenues. Revenues grew by 47% compared to 1998. The geographical spread of sales was very similar to 1998, with slightly over one half being generated from the United States, one third from the Far East and the balance from Europe. The largest growth in revenues came from royalties, which increased from £3.6 million in 1998 to £11.1 million in 1999. During the year, the number of licensees shipping silicon chips based on the ARM architecture grew from 14 to 19 with total volume shipments for the four quarters to September 1999 increasing from 32 million to 131 million units.

Licensing revenues grew in total by 23% compared to 1998. Eight new licensees were signed during the year. Six of these licensed our popular ARM7TDMI™ core, one the synthesisable version (the ARM7-S™ core), one licensed the ARM720T™ core and one licensed the ARM9TDMI™ core. Two of the new licensees took 'per use' licenses with limited rights. Five existing partners upgraded to ARM9 family licenses and two upgraded to the new ARM10T™ core and one company took an architecture license to the Company's latest instruction set, version 5TE. A further 11 licenses were sold to existing partners for derivative family products.

The breakdown of revenues from licensing cores changed during 1999 with the share of license revenues from ARM7 technology falling from 78% in 1998 to 45% in 1999, and revenues from ARM9 and ARM10 technology rising to 36% compared to 13% in 1998. The balance was made up of the licensing of peripheral technologies including models and embedded trace modules.

The licensing of applications software grew significantly from less than £0.2 million in 1998 to more than £0.6 million. This represents a potential growth area for the future and underlines our acquisition of Micrologic Solutions in the fourth quarter.

The sale of development systems grew 26% to £5.6 million with the release of a number of new products.

Consulting revenues grew very strongly from £3.0 million in 1998 to £6.5 million in 1999. This increase was partly due to the problems of availability of resource in 1998 that were resolved in 1999. Additionally, consulting revenue includes fees for design transfer payable by ARM partners who required the licensed technology to be targeted to their specific design processes. Design transfer fees amounted to £2.4 million, more than double the fees for 1998 of £1.0 million.

Support, maintenance and training revenues grew 33% to £5.5 million compared to £4.1 million in 1998.

Operating expenses. As an intellectual property company, approximately two thirds of our costs are employee related. During 1999 headcount grew by 25% from 354 to 443 although operating expenses grew in total by 40%. Apart from the growth in headcount, the main reason for this increase included higher depreciation charges, marketing expenditure, patent costs, establishment costs and additional professional and advisory fees.

The acquisition of Micrologic Solutions Limited was completed smoothly in October and integrated into our applications software group. Amortisation of goodwill of £94,000 relating to Micrologic was included in operating expenses for 1999.

Operating margins. Operating margins increased significantly between 1998 and 1999 from 20% in 1998 to 27% in 1999 when measured under UK GAAP. This improvement was primarily as a result of the higher royalty revenues received during the year. Operating margins excluding royalties declined slightly between 1998 and 1999 from 12% to 11%.

Pre-tax profit measured under UK GAAP increased 85% from £10.2 million to £18.8 million and under US GAAP increased 91% from £9.4 million to £18.0 million. The principal difference between our results as reported under UK and US GAAP is the inclusion under US GAAP of a non-cash compensation charge of £0.7 million related to the issue of certain share options between March 1997 and March 1998.

The group's taxation rate for 1999 fell from 35% in 1998 to 9% in 1999 primarily as a result of a £4.4 million tax saving following the establishment of a Qualifying Employee Share Ownership Trust (QUEST), set up to acquire new shares in the Company for the benefit of employees and directors of the group. Full details of this are given in note 13 of the UK GAAP financial statements on page 52.

12 ARM/Financial Review.

Fully diluted earnings per share measured under UK GAAP grew from 3.4 pence in 1998 to 8.3 pence in 1999 or 6.2 pence if the effects of the establishment of the QUEST and goodwill on acquisition during the year are excluded.

Cash flow and capital expenditure. The group generated £21.2 million of cash from operating activities compared to £11.3 million in 1998. Capital expenditure amounted to £5.9 million compared to £6.4 million in 1998. With the increasing headcount, expenditure on office accommodation represented approximately 40% of the year's capital expenditure: £1.4 million was spent fitting out of the group's new offices in Cambridge which will be occupied from the end of February 2000 while a further £0.8 million was spent on leasehold improvements at the group's new offices in the United States, Japan and Europe. The balance of capital expenditure was spent primarily on computer equipment. The consideration paid for the acquisition of Micrologic Solutions Limited was £1.3 million in cash. The group's overall cash and short term investments increased from £39.6 million at the end of 1998 to £51.8 million at the end of 1999. Details of the group's financial exposure to interest and foreign exchange rate risks are given in note 17 of the UK GAAP financial statements.

Year 2000. The group did not experience any problems with its computer systems as a consequence of the date change on 1 January 2000 nor have any material problems emerged to date as a result. We are not aware of any issues that have arisen as a result of date-related computer problems at third parties or suppliers. The group's preparation for the year 2000 cost approximately £0.2 million.

Jonathan Brooks. Chief Financial Officer

14 February 2000



think







small.

high-performance, low-cost, power-efficient RISC microprocessor cores and devices, system chips and related technology, software and design tools to enhance system performance, cost effectiveness and power efficiency, while reducing time-to-market.

Small but big... We are a small, big company. Small enough to be innovative; big enough to have global influence.

Our focus is on research and development; we place greater store on the creation of ideas and technical methods than on the acquisition of physical assets. Most of our revenue is generated by license fees and royalties from our partners, who include some of the world's largest and most innovative electronics companies.

By creating this intellectual property business model, and developing long-term partnerships with the world's leading electronics companies, we have set ourselves free from manufacturing and are able to remain a dynamic company, with global reach. The ARM architecture is emerging as a de facto volume RISC standard which, in the foreseeable future, may well be used by billions of people worldwide.

But it's only by staying small, and nimble, that we can exert so much influence.

Although our research and development efforts are of a significant size, our system architecture is small and elegant. Packing unbelievable performance into our tiny 32-bit architecture enables chip manufacturers and electronics companies the world over to produce a stream of high-quality, high-performance digital electronic products at low cost.

Just look at mobile phones. Fifteen years ago, when the industry was born, you needed big muscles just to lift the "mobile" phone from the floor. And you could forget about carrying it in your pocket.

But with the introduction of technologies from ARM and our partners, the size and cost of mobile phones have spiralled downward, while the performance and features have spiralled upward. And there is much, much more to come. Today you can make and take phone calls, e-mails and faxes anywhere in the world via a mobile appliance; tomorrow you will be able to access a whole range of products and services (and via Global Positioning Systems, they will be able to access you) anywhere in the world on a mobile phone, which will be smaller, and probably cost less too.

Look at the computing power in today's cars. Today we have automobiles that possess advanced braking systems, navigation systems and on-board diagnostic systems. Tomorrow we will have cars that can think, that can anticipate and that can understand and react to your voice. Tomorrow's cars, with the help of today's ARM technology, will certainly be capable, for example, of avoiding collisions with other cars. These types of developments will become reality as ARM and its partners continue to combine small scale with big vision. Size and performance are at the very heart of the ARM partnership approach, which is how we continually provide more for less.





Wide range... The very first ARM Powered RISC microprocessor was used in a desktop computer back in 1987, but ARM in those days was little more than a small design team within Acorn Group plc, a UK-based educational PC company.

Then, in 1990, ARM was established as a separate company. Although there were only 13 employees housed in a converted barn in Cambridge, they were brave enough to set their sights on engineering a design with the aim that it would become a de facto standard, or, to put it more simply, become the architecture of choice for the digital world. Their chosen area of operations was the exciting, emerging marketplace where computing, communications and consumer electronics converge and today ARM Powered chips can be found at the heart of a wide and growing range of digital electronic products, from mobile phones to fax machines, and from TV set-top box decoders to MP3 players.

Our partners worldwide are constantly developing new products based on our architecture. You name it, and ARM almost certainly is part of it. Whether it be as a key component in hard disk drives, GPS receivers, smart phones, handheld digital organisers, Internet appliances, digital cameras, voice recognition devices, enterprise data networks, or automotive and industrial control systems, an ARM Powered chip is driving key functions in them all.

ARM's expertise in design, coupled with innovative engineering from our global partners, has brought a wide array of digital electronic products to life. The market place has been enriched with high-quality, cost-effective and, in some cases, life saving products. And the range of applications for our technology will continue to get wider and wider.

A feature of our business is that all ARM Powered products are based on the same architecture and platform, ensuring full compatibility as the product range expands. This means that software written for ARM core-based products in the 1990s can be reused in the future – a big benefit in today's digital marketplace, where software development is becoming a key factor in system costs.

Sales of ARM Powered solutions, which were less than 10 million units in 1997, jumped to an estimated 175 million units in 1999. Such is the pace of our growth and development, it is entirely possible that these numbers will continue to increase at a rapid rate for many years to come. And given the increasingly wide range of products utilising the ARM architecture that are being developed, our goal is to ensure we stay at the forefront of this rapidly evolving marketplace, to become the architecture of choice for the digital world. That's our vision of the future, and it's one which we believe can become reality.











PHILIPS

YAMAHA

TOSHIBA



FUJITSU

ONTICO NOTATION













EPSON





SYNOPSYS®









MITSUBISHI





microelectronics group







Microsoft®





SHARP



WIPRO







Agilent Technologies

Innovating the HP Way



symbian

















The ARM "community" comprises many of the world's leading semiconductor and systems manufacturers, including

3Com

Agilent Technologies

AKM

Alcatel

Analog Devices

Atmel

Basis Communications

Cirrus Logic

Conexant

Fricsson

Fujitsu

Hyundai

IBM

Intel

LSI Logic

Lucent Technologies

Matsushita

Mitsubishi

Mitel

National Semiconductor

NEC OKI **Philips**

Qualcomm

Rohm

Samsung

Seiko Epson

Sharp

Sony

ST Microelectronics

Texas Instruments

Toshiba

Yamaha

We are a community... ARM's partnership model has created a global community, which enjoys a common bond while embracing many independent thoughts, cultures, views and ideas. While our community members are independent, their collaboration enables overall market growth that is much faster than a single company could achieve.

Most of our Semiconductor and Systems partners, who make up the core of the ARM business model, are listed on page 24. These companies, and others who have not yet been publicly announced, take our ideas and innovations and develop them into digital electronic products for the mass market. And by working closely with these partners, we ensure that our efforts satisfy real-life needs.

We also work closely with our Development Tools partners to extend the capabilities of the ARM architecture into new and fast developing markets. By supporting the ARM architecture these companies can sell their tools to the rapidly growing ARM design community. It's a virtuous circle, where our Development Tools partners can expand their business while delivering the most comprehensive tool offerings for any architecture, further enhancing the ARM value proposition.

The extended community... Another part of our community comprises our Systems Software partners, who currently number more than 50 of the world's leading suppliers of real-time and embedded operating systems. These companies fully recognise the unique attributes of ARM Powered microprocessor solutions and

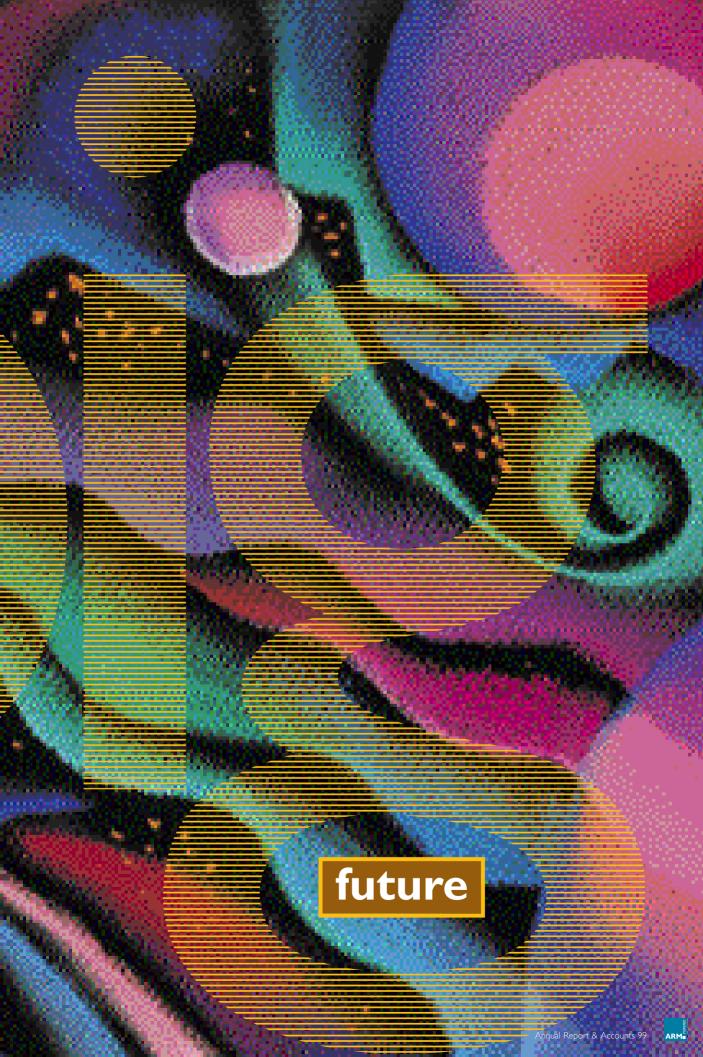
have made sure their systems run on the ARM architecture. This breadth of system development significantly assists us in the development of the ARM architecture as an emerging global industry standard.

And then there are our Design partners, who work with our other partners to design-in our technology. Companies such as Palmchip, Sirius, and Dr Design, plus another 20 or so like them, develop ARM core-based solutions for specific customer needs and applications. We also have the ATAP™ programme, which enables qualified and approved design houses, such as Cadence Design Systems and Wipro Technologies, to obtain direct access to our technologies, allowing them to undertake complex ARM core-based designs for third parties.

The classic definition of a partnership concerns "the sharing of risks and profits in a business venture", and there can be no better way to describe the relationship which we enjoy with some of the world's leading technology companies – our partners. Partnerships are essential to the development of new ideas, and to getting those ideas to market quickly and efficiently.

The breadth and depth of these relationships are fundamental to the ARM partnership business model. As we plan for growth in the years ahead, we expect that this community will increase and develop. Our task is to ensure that the bond we share with existing partners grows even stronger, while we identify and nurture new relationships with the emerging leaders of tomorrow.







Today, the ARM architecture is enabling a new generation of digital electronic products which are changing and simplifying the way we live. Tomorrow, our success will be predicated on our ability to drive the ARM technologies forward, ensuring that we remain at the leading edge of global collaboration, design, innovation and cost effectiveness.

Imagine... In 1946 it was forecast that there would be a world market for, perhaps, five computers at most. Just over half a century later, the enormity of that miscalculation is clear, with something over one billion people currently having access to the Internet, and that number continuing to grow exponentially.

The world is changing, and changing fast. The Internet is creating hundreds, if not thousands, of new opportunities for business and private use every day. Business models are being rewritten to take account of the unprecedented opportunities that lie ahead. The future has never been more exciting, and the opportunities for ARM have never been bigger.

Imagine... a world where the most inconvenient and time consuming tasks are removed from everyday life, like, say, checking in at an airline desk. What if all your personal data, including flight information, favourite seat and preferred in-flight meals, was stored on a credit card sized piece of plastic that could be read by the airline's computers as you progressed swiftly to the aircraft, without even taking the card out of your pocket. In the future, ARM will help you do that.

Imagine... writing notes on a pad while on a business trip across the other side of the world. The pen would use ink to write the memo, but it would also be able to digitise your notes, personalise them, and, via a wireless link with your laptop computer and your file server at the office, issue that memo to each and every staff member, wherever they may be. Instantly. In the future, ARM will play an integral part in delivering the capability for products to do just that.

Imagine... a completely cable free home or office where computers, modems, printers (or televisions, videos and settop boxes), or even previously incompatible systems, talk and exchange data with each other without a cable in sight. In the future ARM will help you do that, via Bluetooth, a new technology initiative to establish this type of wirefree communication capability in a wide range of products.

Imagine... not spending what little free time you have at the shops, in the seemingly endless check-out lines. The drudgery of ordering your groceries will have been done by your refrigerator, which will contact the store directly and arrange automatic delivery. Hooking up the domestic appliances in your home to the Internet so that you can communicate with them, and they with you, will certainly be with us in the not too distant future, and ARM will be an enabler of these developments as well.

Certainly... there's no doubt that the potential for e-commerce is huge, but the potential for mobile electronic commerce is even larger, and our technology will be at the centre of these new opportunities.

E-mail and other Internet applications are forecast to grow massively over the next five years. There's nothing too surprising in that, but even these growth rates seem small when compared to what we will experience with the next generation of digital electronic applications, many of which haven't been invented yet: applications in the areas where computing, communications and consumer electronics converge. This is our chosen area; this is where we are focused, and it is this area where we believe our future will be big. Really big.

Take a look at Global Positioning Systems (GPS). Originally developed by the military, GPS provided revolutionary technology but tended to be utilised in niche products for hikers and yachtsmen; today, this cutting-edge technology is being developed into mass market products.

GPS and mobile telephony technologies are beginning to come together, enabling entirely new and potentially huge markets to emerge. Imagine arriving in a strange town for the first time, and finding the local hoteliers, retailers and other service providers. Instantly. You would never be lost again. Indeed, such would be the accuracy of the technology that you could even receive the latest offers from these shops and retailers, as you pulled into their parking lots.

Undoubtedly we are entering a new era. The greatest challenges for our industry are meeting the need for innovative and increasingly more complex products, while shortening development cycles. Managing these conflicting challenges is demanding; the pace is relentless. And this is where ARM's employees add the most value to our community. With their knowledge, expertise and abilities, the future for ARM will continue to grow even bigger.

As history shows, predicting the future is impossible, but one thing is for sure: that ARM will continue with its vision to remain at the forefront of emerging technologies as well as high-volume, low-cost, digital electronic products, whatever their shape, size or capability. In short, we're a company that works on tomorrow's technologies today; we're involved in all aspects of development, from concept to product, with a strong community of global partners. Of course, such is the pace of change that leading edge today becomes almost commonplace tomorrow. Our future, and our challenge, lies in continually redefining and extending the possibilities for tomorrow, fuelled by the success our technologies enjoy today.

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Selected financial data - UK GAAP.

	1999 £000	1998 £000	1997 £000	1996 £000	1995 £000
Turnover	62,120	42,268	26,580	16,694	9,674
Cost of sales	(9,803)	(8,316)	(6,685)	(4,095)	(1,032)
Gross profit	52,317	33,952	19,895	12,599	8,642
Total operating expenses	(35,794)	(25,638)	(15,343)	(9,196)	(6,268)
Group operating profit	16,523	8,314	4,552	3,403	2,374
Share of loss of associated undertaking	-	(71)	(31)	_	_
Total operating profit	16,523	8,243	4,521	3,403	2,374
Interest receivable, net	2,266	1,911	484	269	247
Profit on ordinary activities before taxation	18,789	10,154	5,005	3,672	2,621
Tax on profit on ordinary activities	(1,776)	(3,507)	(1,661)	(1,012)	(676)
Profit on ordinary activities after taxation	17,013	6,647	3,344	2,660	1,945
Equity minority interest	(64)	(8)	(15)	_	_
Profit attributable to shareholders	16,949	6,639	3,329	2,660	1,945
Dividends	-	(4,000)	_	_	_
Retained profit for the financial year	16,949	2,639	3,329	2,660	1,945
Capital expenditure	5,900	6,402	4,033	1,759	1,147
Cash and short term investments	51,804	39,591	7,405	10,115	3,627
Shareholders' funds	67,683	49,324	12,195	8,798	6,184
Employees at end of year	443	354	274	162	129

In previous years, the group profit and loss account has been presented in accordance with format 2 of the Companies Act 1985. The presentation of the profit and loss account has been changed to format 1 this year as the directors believe that this more fairly reflects the way in which the business is managed. The comparatives have been re-presented to reflect this change.

Compliance with the Combined Code. The Company complies, and complied throughout 1999, with the Combined Code, as issued by the London Stock Exchange based on the recommendations of the Hampel Committee on Corporate Governance.

Composition and operation of the board. The board currently comprises the Chairman and Chief Executive Officer, two executive directors and three independent non-executive directors. During the first five months of the year there was also a board representative from the Company's then largest shareholder, Acorn Group plc. Following the acquisition of Acorn by MSDW Investments Limited in May 1999 and the subsequent distribution of Acorn's shares in ARM Holdings plc to Acorn's shareholders, Stan Boland resigned from the board on 2 June 1999.

The board has been established in order to give a balance of knowledge, experience and objective overview. The three executive directors provide the necessary skills in commercial, operational and financial management. The three independent non-executive directors provide a blend of experience to enable them to bring strong independent judgement and considerable knowledge and experience to the board's deliberations. Peter Cawdron, who is currently and was throughout 1999 the senior independent non executive director, has significant experience of financial and strategic management both in the UK and United States and has extensive knowledge of UK public company issues. Doug Dunn has experience of running significant companies in the semiconductor and electronics industry and provides a major contribution on operational and strategic issues. Larry Tesler has a broad understanding of technology and the practices of Silicon Valley based companies.

In common with the Company's peers in the high technology sector in the United States, there is no separation of the functions of Chairman and Chief Executive, although the board is structured to ensure that there is no undue dominance by the Chairman and Chief Executive. There are no plans to separate these roles in the near future, although this will be kept under review.

The board meets at least once a quarter and is responsible for the development of business and commercial strategy, monitoring progress, the approval of major business matters and policies and of operating and capital expenditure budgets, analysing risks and maintaining adequate systems of internal control and the approval of financial statements. The board is also responsible for sanctioning unusual commercial arrangements such as atypical licence agreements. Prior to each meeting, the board is furnished with timely information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance compared to budget. Information is normally communicated electronically to board members. As two of the non-executive directors are resident abroad, they are kept abreast of significant developments between board meetings by telephone and e-mail. The ultimate responsibility for reviewing and approving the annual report and accounts and the quarterly reports, and for ensuring that they present a balanced assessment of the group's position, lies with the board. The board has established a number of committees and delegates the day-to-day responsibility of managing the group to the executive committee, details of which are set out below.

Executive committee. The executive committee meets normally for two days each month and is responsible for the implementation of the strategy set by the board. It comprises the executive directors, the directors of ARM Limited, representatives of the group's overseas operations and other senior operational personnel as appropriate. Among other things, this committee is responsible for approval of standard licence agreements, ensuring the group's budget and forecasts are properly prepared, ensuring targets are met, and generally managing and developing the business within the overall budget. Deviations from the budget and changes in strategy require approval from the main board of the Company.

Audit committee. The audit committee has responsibility for, among other things, keeping under review the scope and results of the audit, the review of the annual report and accounts and half year interim report, the involvement of the auditors in that process, considering compliance with legal requirements, accounting standards, the rules of the London Stock Exchange and the SEC and for advising the board on the requirements to maintain an effective system of internal controls. The audit committee comprises Peter Cawdron (Chairman), Doug Dunn and Larry Tesler. The committee keeps under review the independence and objectivity of the group's auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors. The committee meets three times a year, once to review the half year interim results, once before the year end to discuss the annual accounts and the approach to the audit, and once early in the year to review the previous year's results. The external auditors and Chief Financial Officer attend all meetings in order to ensure that all the information required by the audit committee is available for it to operate effectively. All directors may attend, and at least once a year, the representatives of the Company's auditors meet with the audit committee without any executive directors being present.

Remuneration committee. The remuneration committee has responsibility for making recommendations to the board, within agreed terms of reference, on the Company's policy on executive remuneration and the individual remuneration packages for the executive directors including pension rights and any compensation payments. It is chaired by Doug Dunn. Peter Cawdron and Larry Tesler are also members of this committee which meets twice a year, once before the end of the year when remuneration issues are tabled for the subsequent year, and shortly afterwards in the new year to review the input of external advisers. The committee has access to professional advice from outside advisers in the furtherance of its duties and makes use of this. Coming from diverse backgrounds, the three independent non-executive directors are able to offer a balanced view with respect to remuneration issues for the group. The Chairman and Chief Executive Officer will normally attend these meetings. The report of the board on remuneration is set out on page 36.

Nominations committee. The nominations committee has responsibility for proposing to the board any new appointments of both executive and non-executive directors. It is chaired by the Chairman and Chief Executive, and is attended by the three independent non-executive directors, Doug Dunn, Peter Cawdron, and Larry Tesler.

Internal control. Under the transitional guidance issued by the London Stock Exchange for the adoption of the recommendations of the Turnbull Committee, the board continues to report on its review of the effectiveness of internal financial controls. The board of directors has overall responsibility for ensuring that the group maintains adequate systems of internal control. To this end, the board has, in accordance with Principle D.2 of the Combined Code and the guidance issued by the Turnbull Committee, established a process for identifying, evaluating and managing the significant risks the group faces. This process has been evolved within the last six months so that the Company will be in a position to be able to report on its compliance with the recommendations of the Turnbull Committee for 2000.

The central process for evaluating and managing risk is a series of interconnected meetings that span the group from a detailed weekly operational meeting chaired by the Vice President of Operations to the main board of the Company. Each week a business review meeting is held whose purpose is to monitor and control all main business activities, sales forecasts and other matters requiring approval which have arisen within the week. There is normally at least one member of the board who attends this meeting. Each month, the outputs of this weekly business review meeting, principally in the form of minutes and presentations, are reviewed by the Executive Committee that allocates up to one day per month to review matters arising. In addition, the Executive Committee will add one specified topic to each month's agenda for a review of risks. Looking forward, the main board of the Company will discuss issues that have arisen from the Executive Committee meetings each quarter and annually will conduct a specific review of risks the group faces.

A specific exercise has again been undertaken to review and monitor the significant risks facing the group of both a financial and non financial nature and to compare progress on these matters over the year. Whilst the review covered all controls, including financial, operational and compliance controls and risk management, the development of the underlying processes and reporting as recommended by the Turnbull Committee mean that the board is only able to report on the effectiveness of internal financial control for 1999. The results of the review of internal control have been reviewed by the board of directors.

The key features of the financial controls of the group include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures. The organisational structure has clear lines of responsibility. Financial control for subsidiary companies is monitored centrally and authorisation of expenditure by overseas companies is closely monitored by the group's management. Profit and loss, balance sheet and cash flow information is prepared each month and reviewed by relevant executives. The board of the Company is furnished with financial information on a quarterly basis. The public release of quarterly information is not made until it has been reviewed by the board and by the group's auditors. While such a system is designed to manage rather than eliminate the risks inherent in a fast-moving high technology business it can only provide reasonable and not absolute assurance against material misstatement or loss.

Given the group's relatively small size of approximately 450 employees, the board does not consider that it would be practicable to have its own internal audit function for the present. Instead it has chosen to date to contract out certain internal audit activities on a project by project basis.

Relationships with shareholders. The board makes considerable efforts to establish relationships with institutional shareholders. At present, approximately fourteen analysts write research reports on the Company and it is likely that several more will be added in the near future. The board endeavours to make institutional presentations at least every six months in both Europe and the United States in order to communicate its objectives. The board is also keen to communicate with private investors and has set aside part of its web site for investor relations issues. It actively encourages participation at the Annual General Meeting scheduled for 18 April 2000.

Going concern. After making enquiries, the directors have a reasonable expectation that the group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Statement of directors' responsibilities. Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the group, and of the profit and loss of the group for the period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

David MacKay. Company Secretary

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Remuneration policy. The principal function of the remuneration committee is to make recommendations to the board on the remuneration and other benefits of all executive directors, including pension contributions, bonus payments, share options and service contracts. The remuneration committee in its current form and in its deliberations on the remuneration policy for the Company's directors seeks to give full consideration to the Combined Code.

The Company operates a remuneration policy for executive directors designed to ensure it attracts and retains the management skills necessary for it to remain a leader in its field. The policy seeks to provide rewards and incentives for the remuneration of executive directors that reflect the performance and align with the objectives of the group. The committee believes that a director's total remuneration should seek to recognise his worth in the external market. The policy on executive director remuneration and appointments is set out below.

Total level of remuneration. The remuneration committee aims to ensure that remuneration remains competitive with comparable public listed companies and that individuals are fairly rewarded for their contribution to the rapid growth and success of the group. There is a strong bonus element to executives' remuneration of between 20% and 45% of basic pay. In the last two years, bonuses of 35% and 45% respectively have been paid to executive directors. Bonuses are tied to the achievement of the group's annual budget, with 30% bonus being achieved if all targets are met. These include the level of sales and profit growth and forward orders generated for future periods. The nature of the group's development has meant that there has been a good deal of focus on the attainment of short term objectives with a high level of variable remuneration and the committee believes this remains an appropriate method of remuneration. In addition, the Company operates a number of share option plans and all employees can expect to receive a number of share options according to their grade, past performance and length of service in the Company. Typically, share options, which are always issued at market value, are allocated to employees on an annual basis during the first quarter of the year. Currently there are no performance conditions attached to the issue or exercise of these options.

Service agreements. Executive directors have 'rolling' service contracts which are terminable by either party on one year's notice. These agreements provide for each of the directors to provide services to the Company on a full time basis. The agreements contain restrictive covenants for periods of three to six months relating to non competition, non solicitation of the group's customers, non dealing with customers and non solicitation of the group's suppliers and employees. In addition, each service agreement contains an express obligation of confidentiality in respect of the group's trade secrets and confidential information and provides for the group to own any intellectual property rights created by the directors in the course of their employment.

Non-executive directors. During 1999 each non-executive director received a total fee of £15,000 per annum. This fee was arrived at by reference to fees paid by other companies of similar size and complexity, and reflected the amount of time non-executive directors were expected to devote to the group's activities during the year. The remuneration of the non-executive directors is set by the board of the Company and their term of appointment is three years. Non-executive directors do not have service contracts.

Remuneration and directors' interests. For details on individual directors' emoluments and interests in share options see note 3 of the financial statements. For details of directors' shareholdings in the Company, please refer to the table in the Directors' Report.

Doug Dunn, OBE. Chairman of Remuneration Committee

The directors present their annual report and audited financial statements for the year ended 31 December 1999.

Principal activities and review of business. The principal activities of the Company and its subsidiaries are the licensing, marketing, research and development of RISC based microprocessors and systems. The nature of the global semiconductor industry is such that most of its business is conducted overseas and, to better serve its customers, the group has four offices in the United States, and offices in Tokyo, Japan; Seoul, South Korea; Paris, France and Munich, Germany. A review of business is set out in the Chairman and Chief Executive's Review on pages 4 to 6 and the Financial Review on pages 10 to 12.

Future developments. The Company's stated objective is to establish a new global RISC architecture standard for the embedded microprocessor market. The directors believe that to achieve this goal it is important to expand the number and range of potential customers for its technology. To this end, the group intends to sign further license agreements with new customers and to establish relationships with more third party tools and software vendors to ensure that their products will operate on the ARM architecture. The group also plans to develop new technology to license to existing customers. To achieve its stated objective, the directors believe that the group will need to continue to increase its headcount over time in order to develop new technology and serve new customers. As a result of its position as an emerging standard in its industry, the group is presented with opportunities from time to time to acquire complementary technology or resources. During the year the group acquired Micrologic Solutions Limited but at the present time, the group has no immediate plans, commitments or understandings with respect to any further acquisitions.

Dividends. With the exception of the dividend paid at the time of its initial public offering in April 1998, the Company has never paid nor declared any dividends on its shares in line with its peer companies in the high technology sector in the United States. Although the policy will be kept under review, the directors do not anticipate paying dividends in the future. No interim dividend was declared during the year and the directors do not recommend the payment of any final dividend for the year.

Research and development. Research and development is of major importance and while the group does not undertake any pure research, it does collaborate closely with universities worldwide. Key areas of product development include next-generation wireless applications including Bluetooth solutions, additional versions of the ARM9 architecture, further power and performance optimisation of the ARM10 architecture and enhanced applications software and development tools offerings.

The group incurred research and development costs of £17.0 million in 1999 compared with £12.4 million in 1998, which have been charged to the profit and loss account.

Donations. The group made charitable donations of £21,500 (1998: £5,600) during the year.

Directors in the year. The following served as directors of the Company during the year ended 31 December 1999:

R Saxby (Chairman and Chief Executive Officer)

J Brooks (Chief Financial Officer)

J Urguhart (Chief Operating Officer)

P Cawdron (independent non executive)

D Dunn OBE (independent non executive)

L Tesler (independent non executive)

S Boland (non executive, resigned 2 June 1999)

G Wipfler (non executive, resigned 15 January 1999)

During 1999, Peter Cawdron was the senior independent non-executive director.

Stan Boland, who was the representative of the then largest shareholder, Acorn Group Plc, resigned on 2 June 1999 following the acquisition of that company and the subsequent distribution of Acorn's shares in ARM Holdings plc to Acorn shareholders.

Election of directors. In accordance with the Company's articles of association, Jonathan Brooks and Peter Cawdron will retire by rotation at the Company's Annual General Meeting and will seek re-election at that meeting. See pages 8 and 9 for their biographies. Jonathan Brooks has a 12 month rolling service contract. Peter Cawdron does not have a service contract.

Directors' shareholdings in the Company. The interests of the directors in the ordinary 0.25 pence shares of the Company were as set out below. Comparative figures have been amended to reflect the 4 for 1 share split of the Company's ordinary shares which took place in April 1999.

	31 December 1999	31 December 1998
	Number	Number
R Saxby*	4,663,800	5,483,800
J Brooks	-	_
J Urquhart*	380,800	880,800
P Cawdron	28,000	28,000
L Tesler*	30,000	30,000
D Dunn	9,600	_

^{*} In February 2000, Robin Saxby sold 100,000 shares, Jamie Urguhart sold 100,000 shares and Larry Tesler sold 6,000 shares.

See Note 3 to the financial statements for details of directors' interests in share options.

In addition to the interests disclosed above, all of the executive directors (together with all of the employees of the group) are potential beneficiaries of both the ARM Holdings plc Employee Share Ownership Trust and the ARM Holdings plc Qualifying Employee Share Ownership Trust. They are therefore treated as interested in all the shares held by these trusts, being 1,000,000 shares and 780,000 shares respectively at 31 December 1999.

Substantial shareholdings. At 7 February 2000 the Company had been notified of the following shareholding amounting to 3% or more of its ordinary share capital:

	Ordinary shar	Ordinary shares of 0.25p each	
	Number	Percentage	
Apple Computer Inc	10,860,000	5.7	

The Company has not received notification that any other person holds more than 3% of the issued ordinary share capital.

Disabled persons. The group has a strong demand for highly qualified staff and as such disability is not seen to be an inhibitor to employment or career development within the group. In the event of any staff becoming disabled while with the group, their needs would be assessed and they would be offered alternative employment where possible if they were no longer able to continue in their current role.

Employee involvement. As an intellectual property enterprise, it is vital that all levels of staff are consulted and involved in the decision making processes of the group. To this end, internal conferences and meetings are held regularly which involve employees from all parts of the group in discussions on future strategy and developments. Furthermore, employee share ownership is encouraged and all staff are able to participate in one of the Company's schemes to encourage share ownership. The group has a very informal and delegated organisational structure. It does not presently operate any collective agreements with any trades unions.

Policy on payment of creditors. The group's policy is to pay suppliers within 21 days of the date of receipt of the invoice, unless terms have been specifically agreed in advance. This policy and any specific terms agreed with suppliers are made known to the appropriate staff and to suppliers on request. The average number of creditor days for the year ended 31 December 1999 was 12 days for the group (1998: 13 days), and nil days for the Company in both years.

Annual General Meeting. The Annual General Meeting will be held at the offices of Linklaters & Alliance at One Silk Street, London EC2Y 8HQ on 18 April 2000 at 10.00 a.m. The notice of the Annual General Meeting appears at the end of the Circular which accompanies this Annual Report.

The Company will convey the results of proxy votes cast at the Annual General Meeting .

Shareholders are invited to submit written questions in advance of the Meeting. Questions should be sent to the Secretary, ARM Holdings plc, 110 Fulbourn Road, Cambridge, CB1 9NJ.

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the board

David MacKay. Company Secretary

14 February 2000

ARM/Consolidated Profit and Loss Account/UK Format.

	Notes	1999 £000	1998 £000
Turnover	2	62,120	42,268
Cost of sales		(9,803)	(8,316)
Gross profit		52,317	33,952
Operating expenses			
Research and development		(16,966)	(12,436)
Sales and marketing		(11,297)	(8,496)
Administrative expenses		(7,531)	(4,706)
Total operating expenses		35,794	25,638
Group operating profit		16,523	8,314
Share of operating loss of associated undertaking		-	(71)
Total operating profit		16,523	8,243
Interest receivable and similar income		2,266	1,933
Interest payable and similar charges	5	-	(22)
Profit on ordinary activities before taxation	2, 6	18,789	10,154
Tax on profit on ordinary activities	7	(1,776)	(3,507)
Profit on ordinary activities after taxation		17,013	6,647
Equity minority interest	23	(64)	(8)
Profit attributable to shareholders		16,949	6,639
Dividends – including non-equity	9	-	(4,000)
Retained profit for the financial year	21	16,949	2,639
Earnings per 0.25p ordinary share *	10		
Basic		9.0p	2.6p
Diluted		8.3p	3.4p
Supplemental earnings per 0.25p ordinary share *	10		
Basic		6.7p	2.6p
Diluted		6.2p	3.4p

^{*} Re-stated following the 4 for 1 share split of the ordinary shares of the Company on 20 April 1999.

All activities relate to continuing operations, which include the results of the acquisition in the year, integrated into the group. See note 20. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

ARM/Statement of Total Recognised Gains and Losses/UK Format.

	Notes	1999 £000	1998 £000
Profit for the financial year		16,949	2,639
Foreign exchange difference on consolidation	22	164	23
Total recognised gains and losses for the year		17,113	2,662

	Notes	1999 £000	1998 £000
Fixed assets			
Intangible assets	11	1,033	_
Tangible assets	12	9,280	7,903
Investments	13	2,488	1,568
		12,801	9,471
Current assets			
Stocks	14	199	221
Debtors	15	19,123	12,341
Short term investments	17	46,007	37,095
Cash at bank and in hand	17	5,797	2,496
		71,126	52,153
Creditors: amounts falling due within one year	16	(16,061)	(12,250)
Net current assets		55,065	39,903
Total assets less current liabilities		67,866	49,374
Provisions for liabilities and charges	18	(69)	_
Net assets		67,797	49,374
Capital and reserves			
Called up share capital	19	480	472
Share premium account	21	53,537	37,888
Other reserves	21	55	(109)
Profit and loss account	21	13,611	11,073
Equity shareholders' funds	22	67,683	49,324
Minority interest – equity	23	114	50
Capital employed		67,797	49,374

The financial statements on pages 40 to 65 were approved by the board of directors on 14 February 2000 and were signed on its behalf by:

Robin Saxby. Director

Polis & Saxly

	Notes	1999 £000	1998 £000
Fixed assets	110103		
Investments	13	2,397	1,438
Current assets			
Debtors: amounts falling due within one year	15	23,909	215
Debtors: amounts falling due after more than one year	15	13	6,521
Short term investments		33,402	32,150
Cash at bank and in hand		54	9
		57,378	38,895
Creditors: amounts falling due within one year	16	(1)	(486)
Net current assets		57,377	38,409
Net assets		59,774	39,847
Capital and reserves			
Called up share capital	19	480	472
Share premium account	21	53,537	37,888
Profit and loss account	21	5,757	1,487
Equity shareholders' funds		59,774	39,847

The financial statements on pages 40 to 65 were approved by the board of directors on 14 February 2000 and were signed on its behalf by:

Robin Saxby. Director

Lohi & Saxly

	Notes	1999 £000	1998 £000
Net cash inflow from operating activities	24	21,214	11,304
Returns on investments and servicing of finance			
Interest received		2,293	1,840
Non-equity dividend paid		_	(2,959
Net cash inflow/(outflow) from returns on investments and servicing of finance		2,293	(1,119
Taxation			
Withholding tax paid		(1,771)	(754
UK corporation tax paid		(2,621)	(1,925
Overseas tax paid		(247)	(818
Tax paid		(4,639)	(3,497
Capital expenditure and financial investment			
Purchase of own shares		_	(1,438
Purchase of tangible fixed assets		(5,900)	(6,402
Sale of tangible fixed assets		20	38
Net cash outflow for capital expenditure and financial investment		(5,880)	(7,802
Acquisitions and disposals			
Purchase of further interest in subsidiary undertaking		_	(23
Purchase of subsidiary undertaking		(1,327)	_
Net cash acquired with subsidiary undertaking		140	_
Net cash outflow from acquisitions	27	(1,187)	(23
Equity dividends paid		-	(1,041
Net cash inflow/(outflow) before management of liquid resources and financing		11,801	(2,178
Management of liquid resources			
Purchase of short term investments	25	(8,912)	(31,762
Financing			
Issue of shares		287	39,776
Expenses on issue of shares		-	(5,435
		287	34,341
Increase in cash	25	3,176	401

ARM/Notes to the Financial Statements/UK Format.

1/Principal accounting policies.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting. The financial statements are prepared in accordance with the historical cost convention.

Profit and loss account format. In previous years, the group profit and loss account has been presented in accordance with format 2 of the Companies Act 1985. The presentation of the profit and loss account has been changed to format 1 this year as the directors believe that this more fairly reflects the way in which the business is managed. Comparative information has been re-presented to reflect this change.

Basis of consolidation. The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 1999. Intra-group transactions and profits are eliminated fully on consolidation.

Associated undertakings. Companies in which the group has a participating interest are treated as associated undertakings. The group's profit and loss account, balance sheet and cash flow statement have been presented in accordance with the requirements of FRS 9 "Associates and Joint Ventures". The consolidated profit and loss account includes the group's share of profits less losses of associated undertakings. The consolidated balance sheet includes interests in associated undertakings at the value of the group's share of the net assets of those undertakings and the value of any goodwill not written off or amortised.

Goodwill. Purchased goodwill, being the difference between the fair value of consideration and the fair value of net assets acquired, is capitalised and amortised on a straight-line basis over a prudent estimate of the time that the Company is expected to benefit from it. Goodwill amortisation periods are determined on a case by case basis. Provision is made against the carrying value of goodwill where an impairment in value is deemed to have occurred.

The group acquired Micrologic Solutions Limited during the year (see note 20) and is amortising the associated purchased goodwill over a period of two years. This period has been determined with reference to employee turnover rates in the industry.

During the year the decision was taken to write off the unamortised value of goodwill arising on the acquisition of Palmchip Corporation.

Short term investments. Bank deposits, which are not re-payable on demand, are treated as short term investments in accordance with Financial Reporting Standard No 1, revised in 1996. Movements in such investments are included under "management of liquid resources" in the group's cash flow statement.

Pension scheme arrangements. The group contributes to defined contribution plans, covering substantially all employees in Europe and the United States and to a government pension scheme for employees in Japan and South Korea. The group contributes to these plans based upon various fixed percentages of employee compensation and such contributions are expensed as incurred.

Tangible fixed assets. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. Tangible fixed assets are carried at cost and are depreciated from the date that they come into use. The principal useful economic lives used for this purpose are:

Freehold buildings 25 years

Leasehold improvements 5 years or term of lease whichever is shorter

 $\begin{array}{lll} \text{Computers and software} & 3 \text{ years} \\ \text{Fixtures and fittings} & 5-10 \text{ years} \\ \text{Motor vehicles} & 4 \text{ years} \\ \end{array}$

Operating leases. Costs in respect of operating leases are charged on a straight-line basis over the lease term.



1/Principal accounting policies/continued.

Stocks and work in progress. Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover (excluding VAT) comprises the value of sales of licences, royalties arising from the resulting sale of licensed products, revenues from support, maintenance and consulting contracts and the sale of boards and software toolkits.

Each licence is designed to meet the specific requirements of each customer. Delivery generally occurs within a short time period after signing. Licence fees are invoiced according to an agreed set of milestone payments. Typically the first milestone is on signing of the contract, the second is on delivery of the customised technology and the third is related to acceptance of the technology by the licensee.

Revenue from the sale of licences is recognised on a percentage to completion basis over the period from signing of the licence to customer acceptance. Under the percentage to completion method, provisions for estimated losses on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined.

In addition to the licence fees, contracts generally contain an agreement to provide post contract support. Fees for post contract support which take place after customer acceptance are specified in the contract. The fees are determined based on the group's price list as if sold separately. The price list is established and regularly reviewed by management. Revenue for post contract support is recognised on a straight-line basis over the period for which support and maintenance is contractually agreed by the group with the licensee.

Revenue from consultancy is recognised when obligations are fulfilled; revenue from the sale of boards and software tools is recognised when goods are delivered; royalty revenue is recognised when notification is received from the customer of product sales; and revenue for support and maintenance is recognised over the period in which the maintenance service is provided.

Deferred taxation. Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Foreign currency. The assets and liabilities of subsidiaries denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year.

Profit and loss accounts of overseas subsidiary undertakings are translated at the average exchange rate for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies are taken to reserves and reported in the statement of total recognised gains and losses.

Other transactions denominated in foreign currencies have been translated into sterling at actual rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at rates ruling at the balance sheet date. Exchange differences have been included in operating profit.

Financial instruments. The group attempts to reduce its foreign currency exposure by entering into forward contracts to sell US dollars and buy sterling. The group accounts for these instruments by revaluing the associated trade debtors at the forward contract rate and charging the resulting gain or loss through the profit and loss account for the year.

Research and development. All ongoing research and development expenditure is written off in the year in which it is incurred.

Share schemes. The group's Employee Share Ownership Plan ("ESOP") and Qualifying Employee Share Ownership Trust ("QUEST") are separately administered trusts which are funded by loans (the ESOP) and loans and gifts (the QUEST) from the group, and the assets of which comprise shares in the Company. Shares in the Company held by the ESOP are shown at the lower of cost and market value. Shares in the QUEST are shown at their estimated recoverable amount being the option price of the shares payable by employees. The amounts contributed to the QUEST in excess of the option price are charged against reserves.

Grants. Grants in respect of specific research and development projects are credited to the profit and loss account to match the projects' related expenditure.

Changes in presentation of financial information. FRS 13, "Derivatives and other financial instruments – disclosures", has been adopted and the required disclosures are set out in note 17.



ARM/Notes to the Financial Statements/UK Format.

2/Segmental analysis.

The directors are of the opinion that the group has only one class of business. The group's operations by geographical area are as follows:

Turnover by destination.

	1999 £000	1998 £000
Europe	8,169	6,713
US	33,091	22,442
Asia Pacific	20,860	13,113
	62,120	42,268

Turnover by origin.

	1999			1998		
	Total sales £000	Inter-segment sales £000	External sales £000	Total sales £000	Inter-segment sales £000	External sales £000
Europe	60,400	(2,190)	58,210	41,455	(1,441)	40,014
US	12,439	(10,099)	2,340	9,232	(7,730)	1,502
Asia Pacific	3,131	(1,561)	1,570	1,402	(650)	752
	75,970	(13,850)	62,120	52,089	(9,821)	42,268

Profit before taxation, by origin.

	1999 £000	1998 £000
Europe	16,899	9,095
US	825	903
Asia Pacific	1,065	156
	18,789	10,154

Net assets.

	1999 £000	1998 £000
Europe	64,323	47,599
US	2,249	1,287
Asia Pacific	1,225	488
	67,797	49,374

3/Directors' emoluments.

The emoluments of the directors of the Company were paid through its wholly owned subsidiary, ARM Limited, and were as follows:

	Fees	Basic salary	Benefits	Bonus payments	Pension contributions	Total 1999	Total 1998
	£	<u> </u>	£	<u> </u>	<u> </u>	£	£
Executive							
R Saxby	_	154,000	10,598	69,300	22,388	256,286	195,114
J Brooks	_	104,000	9,834	46,800	9,122	169,756	106,607
J Urquhart	_	104,000	10,179	46,800	8,985	169,964	105,441
Total	_	362,000	30,611	162,900	40,495	596,006	407,162
Non-executive							
P Cawdron	15,000	_	_	_	_	15,000	11,250
L Tesler	15,000	_	_	_	_	15,000	11,250
D Dunn OBE	15,000	_	_	_	_	15,000	_
S Boland*	_	_	_	_	_	_	_
G Wipfler*	_	_	_	_	_	-	_
Total	45,000	_	_	_	_	45,000	22,500
Total	45,000	362,000	30,611	162,900	40,495	641,006	429,662

^{*} Messrs Boland and Wipfler did not receive directors' fees as they were representatives of their companies, Acorn Group plc and Apple Computer Inc respectively, which had significant shareholdings in the Company during the year.

The three executive directors are accruing benefits under a money purchase pension scheme as a result of their services to the group, contributions for which were all paid during the year.

The gains made by one director on the exercise of share options were £741,000 (1998: £nil). The share price on the date of exercise was £9.85.

Options over shares in Company. Details of options held by directors are set out below:

Director	As at 1 January 1999 * Number	Granted Number	Exercised Number	As at 31 December 1999 Number	Exercise price *	Earliest date of exercise	Expiry date
R Saxby	280,000	_	_	280,000	£0.0225	29/01/96	28/01/03 **
,	280,000	_	_	280,000	£0.0475	07/02/97	06/02/04 **
	140,000	_	_	140,000	£0.0875	16/02/98	15/02/05 **
	120,000	_	_	120,000	£0.10	15/07/99	14/07/03 ***
	_	28,000	_	28,000	£6.12	11/03/02	10/03/06 ***
	820,000	28,000	_	848,000			
J Brooks	76,000	_	(76,000)	_	£0.10	15/07/99	14/07/06 **
	740,000	_		740,000	£0.13	05/03/00	04/03/04 ***
	_	28,000	_	28,000	£6.12	11/03/02	10/03/06 ***
	816,000	28,000	(76,000)	768,000			
J Urquhart	80,000	_	_	80,000	£0.0875	16/02/98	15/02/05 **
'	76,000	_	_	76,000	£0.10	15/07/99	14/07/03 ***
	174,000	_	_	174,000	£0.13	05/03/00	04/03/04 ***
	_	28,000	_	28,000	£6.12	11/03/02	10/03/06 ***
	330,000	28,000	_	358,000			

^{*} Adjusted to reflect the 4 for 1 share split in the Company's ordinary shares which took place in April 1999.

None of the share options issued have performance conditions attached to them.

The market value of the shares of the Company as at 31 December 1999 was £41.77. The closing mid price ranged from £3.18 to £41.77 during the year, after adjusting for the 4 for 1 share split which took place in April 1999.

The Company has no long term incentive schemes.

^{**} Denotes share options issued under the Company's approved share option scheme.

^{***} Denotes share options issued under the Company's unapproved share option scheme.

4/Employee information.

The average monthly number of persons, including executive directors, employed by the group during the year was:

	1999 Number	1998 Number
By activity		
Research and development	221	173
Administration	49	39
Sales and marketing	121	102
	391	314
	1999	1998
	0003	£000
Staff costs (for the above persons)		
Wages and salaries	17,568	12,353
Social security costs	1,618	1,072
Other pension costs	853	628
	20,039	14,053

Of the total pension costs above, £nil (1998: £nil) remained unpaid at the year end.

5/Interest payable and similar charges.

	1999 £000	1998 £000
Bank charges	-	22

6/Profit on ordinary activities before taxation.

Profit on ordinary activities before taxation is stated after charging:

	1999	1998
	£000	£000
Depreciation charge for the year:		
Tangible owned fixed assets	4,581	3,083
Amortisation of goodwill – subsidiary	94	_
associate	5	5
Provision for diminution in value of goodwill of associate	34	_
Auditors' remuneration:		
Audit services (Company £4,000 (1998: £3,000))	74	50
Non-audit services	284	214
Hire of plant and machinery – operating leases	31	26
Leased buildings – operating leases	1,260	407

In 1999 non-audit fees were £284,000 and related to tax compliance and advisory work (£106,000), interim reviews, SEC-related work and accounting advice (£130,000) and other advisory work (£48,000). Auditors' remuneration for non-audit services in 1998 included £232,000 relating to the Company's flotation which was charged to the share premium account and is not reflected in the above disclosures. Non-audit fees of a total of £446,000 for PricewaterhouseCoopers in 1998 included £396,000 paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as auditors.

7/Tax on profit on ordinary activities.

	1999	1998
	£000	£000
United Kingdom corporation tax at 30.25 % (1998: 31%):		
Current	2,126	3,446
(Over) provision in respect of prior years	(388)	_
Deferred	336	(336)
Other	(496)	_
	1,578	3,110
Overseas taxation		
Overseas corporation tax	218	479
Relief for overseas taxation:		
Tax spared	(20)	(44)
(Over) provision in respect of prior years:		
Current	-	(38)
	1,776	3,507

The taxation charge for the year has been reduced by £4,359,000 following a contribution of £14,411,000 to the group's QUEST as detailed in note 13, and by £598,000 in relation to tax losses generated by overseas subsidiaries.

8/Profit for the financial year.

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation, including dividends receivable and before dividends payable was £18,681,000 (1998: £5,006,000).

9/Dividends.

	1999 £000	1998 £000
Equity - ordinary *		
No interim dividend paid or final dividend proposed (1998: IPO dividend paid 2.49p per 0.25p share)	_	1,041
Non - equity *		
No interim dividend paid or final dividend proposed (1998: IPO dividend paid 2.49p per 0.25p share)	-	2,959
	-	4,000

^{*} Restated to reflect the 4 for 1 share split.

10/Earnings per share.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the ESOP and the QUEST which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company had one category of dilutive potential ordinary shares during the year, being those share options granted to employees where the exercise price is less than the market price of the Company's ordinary shares at the date of exercise. In 1998, the Company had a second category of dilutive potential ordinary shares being preference shares that were converted into ordinary shares during 1998. During the year ended 31 December 1998, the Company declared a special one-off dividend, at the time of its initial public offering, to all of its shareholders. The special preference dividend must be deducted from the profit attributable to shareholders in determining the earnings available to ordinary shareholders, which had the effect of reducing basic earnings per share in 1998. Generally, diluted earnings per share are lower than basic earnings per share. However, in 1998, the reverse was the case because the majority of the IPO dividend was paid to preference shareholders.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	1999			1998		
	Earnings £000	Number of shares (thousands)	Per share Amount	Earnings £000	Number of shares (thousands)*	Per share Amount *
Profit attributable to shareholders Less: preference dividend	16,949 -			6,639 (2,959)		
Basic EPS Earnings available to ordinary shareholders	16,949	189,064	9.0p	3,680	143,600	2.6p
Effect of dilutive securities: Options Convertible preference shares	- -	14,813 -		<u> </u>	14,744 34,796	
Diluted EPS Adjusted earnings	16,949	203,877	8.3p	6,639	193,140	3.4p

^{*} Adjusted to reflect the 4 for 1 share split of the Company's ordinary shares in April 1999.

Convertible preference shares are included in the calculation of basic earnings per share in the year ended 31 December 1998 from the date of conversion.

Supplementary earnings per share to exclude the tax effect of contribution to the QUEST and goodwill amortisation.

				J		
	1999				1998	
	Earnings £000	Number of shares (thousands)	Per share Amount	Earnings £000	Number of shares (thousands)*	Per share Amount *
Basic EPS	16,949	189,064	9.0p	3,680	143,600	2.6p
Tax effect of payment to QUEST	(4,359)	-	(2.3p)	_	_	_
Amortisation of goodwill	94	-	0.0p	_	_	_
Basic EPS excluding tax effect of QUEST and goodwill amortisation	12,684	189,064	6.7p	3,680	143,600	2.6p
Diluted EPS	16,949	203,877	8.3p	6,639	193,140	3.4p
Tax effect of payment to QUEST	(4,359)	_	(2.1p)	_	_	<u>.</u>
Amortisation of goodwill	94	-	0.0p	_	_	_
Diluted EPS excluding tax effect of QUEST and goodwill amortisation	12,684	203,877	6.2p	6,639	193,140	3.4p

As explained in note 7, the group's profit after tax in 1999 has been reduced following a contribution of £14,411,000 to the group's QUEST. Supplementary basic and diluted EPS have been calculated to exclude both this effect and the effect of goodwill amortisation in respect of the subsidiary acquired in 1999. The adjusted numbers have been provided in order that the effects of the items on reported earnings per share can be fully appreciated.

11/Intangible fixed assets.

Group	Goodwill £000
Cost	
At 1 January 1999	_
Additions (note 20)	1,127
At 31 December 1999	1,127
Aggregate amortisation	
At 1 January 1999	_
Charge for the year	94
At 31 December 1999	94
Net book value	
At 31 December 1999	1,033
At 31 December 1998	_

The Company does not own any intangible fixed assets.

12/Tangible fixed assets.

Group	Freehold buildings £000	Assets under construction £000	Leasehold improvements £000	Computers and software £000	Fixtures, fittings and motor vehicles £000	Total £000
Cost						
At 1 January 1999	_	_	1,011	12,013	1,636	14,660
Exchange differences	_	_	_	38	8	46
Additions	190	1,436	840	3,072	362	5,900
Acquisitions	_	_	15	8	12	35
Disposals	_	_	_	(7)	(59)	(66)
At 31 December 1999	190	1,436	1,866	15,124	1,959	20,575
Aggregate depreciation						
At 1 January 1999	_	_	322	5,781	654	6,757
Exchange differences	_	_	_	7	_	7
Charge for year	7	_	402	3,723	449	4,581
Disposals	_	_	_	(4)	(46)	(50)
At 31 December 1999	7	-	724	9,507	1,057	11,295
Net book value						
At 31 December 1999	183	1,436	1,142	5,617	902	9,280
At 31 December 1998	_	_	689	6,232	982	7,903

Assets under construction represent leasehold improvements.

The Company does not own any tangible fixed assets.

13/Fixed asset investments.

Group	Associated undertaking £000	Other investments £000	Investment in own shares £000	Total £000
Cost				
At 1 January 1999	319	20	1,438	1,777
Additions	_	_	959	959
Share of loss for the year	_	_	_	_
At 31 December 1999	319	20	2,397	2,736
Amounts written off				
At 1 January 1999	189	20	_	209
Impairment	34	_	_	34
Amortisation of goodwill	5	_	_	5
At 31 December 1999	228	20	-	248
Net book value				
At 31 December 1999	91	-	2,397	2,488
At 31 December 1998	130	_	1,438	1,568

Associated undertaking. The investment in the associated undertaking comprises:

Share of associated undertaking's net assets	91
Goodwill	_
	91

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ARM Limited holds 100% of the 'A' preferred share capital of Palmchip Corporation, being a holding of 45.4% in the total share capital of the company. The company is incorporated in the USA and its principal business activity is the development and supply of systems-on-chip solutions and associated engineering design services. During the year the decision was taken to write off the unamortised value of goodwill on acquisition.

Other investments. Other investments represent the group's 3% holding, held by ARM Limited, in the share capital of Sirius Communications NV whose principal business activity is the design and sale of spread spectrum transceivers which can be integrated into microcontrollers. Full provision has been made against this investment.

Investment in own shares. Investment in own shares includes £1,438,000 being the cost of 1 million shares in the Company held by the group's ESOP which are disclosed as a fixed asset investment in accordance with Urgent Issues Task Force Abstract Number 13 ("Accounting for ESOP Trusts"). The trust was set up in 1998 and purchased shares at the time of the Company's flotation using funds provided by the Company. No options had been granted over these shares at 31 December 1999 and no awards have been made since the trust was created. As at 31 December 1999 and 1998 the trust held 1,000,000 shares (nominal value £2,500) with a market value of £41,770,000 at 31 December 1999 (1998: £3,194,000). All costs relating to the scheme are dealt with in the profit and loss account as they accrue and the trust has waived the right to receive dividends of over and above 0.01p per share on all shares held.

Investment in own shares held also includes £959,400 relating to 780,000 shares held by the group's QUEST, established by the Company during the year. The Company established the QUEST to acquire new shares in the Company for the benefit of employees and directors of the group. On 8 November 1999, the Company provided £15,369,900 for this purpose of which £14,410,500 was by way of a gift and £959,400 was by way of a loan. On the same date, the QUEST subscribed at market value for 780,000 of the Company's 0.25p ordinary shares. The shares rank pari passu in all respects with the existing ordinary shares. They will be allocated to employees and directors to satisfy their options granted under the Company's Save As You Earn Option Schemes. The cost of the gift has been transferred by the Company directly to the profit and loss account reserve. The excess of the subscription price over the nominal value of the shares issued, which amounts to £15,367,950, has been taken to the share premium account.

13/Fixed asset investments/continued.

The shares held by the QUEST at 31 December 1999 have been included in the group balance sheet, as investments in own shares, at a value of £959,400, which is equivalent to the amounts receivable from employees on exercise of their options. The market value of the shares at 31 December 1999 was £32,580,600.

Under the terms of the trust deed, dividends have been waived on the shares held by the QUEST, and all costs relating to the scheme are dealt with in the profit and loss account as they accrue.

	Interests in group	Investment in own	
	undertakings	shares	Total
Company	£000	£000	£000
Cost and net book value			
At 1 January 1999	_	1,438	1,438
Additions	_	959	959
At 31 December 1999	-	2,397	2,397

Investment in own shares comprises the shares held by the Company's ESOP and by the Company's QUEST, as described above.

Interests in group undertakings. Details of subsidiary undertakings are as follows:

Name of undertaking	Country of registration	Description of shares held	nominal value of issued shares held
ARM Limited	England and Wales	Ordinary £1 shares	100%
ARM QUEST Trustees Limited	England and Wales	Ordinary £1 shares	100%

The principal activity of ARM Limited is the marketing, research and development of RISC based microprocessors. ARM QUEST Trustees Limited is the trustee company of the Company's QUEST.

The group holds four 100% investments in subsidiaries, via its subsidiary company, ARM Limited. These are ARM, INC. (USA), ARM KK (Japan), Micrologic Solutions Limited (note 20) and Advanced RISC Machines Limited. At the year end the group also held an 85% investment in ARM Korea Limited, also a subsidiary of ARM Limited. The countries of incorporation of the above subsidiaries are the USA, Japan, the UK, the UK and South Korea respectively.

The principal activities of ARM, INC. are the marketing, research and development of RISC based microprocessors. The principal activity of the other overseas subsidiaries is the marketing of RISC based microprocessors. The principal activity of Micrologic Solutions Limited was the design of applications software on acquisition, but following the transfer of its business to ARM Limited it was dormant at the year end. Advanced RISC Machines Limited was dormant throughout the year.

Nominees of the Company hold 100% of the ordinary share capital of ARM Employee Benefit Trustee Ltd, a company which acts as trustee to the group's ESOP.

14/Stocks.

Group	1999 £000	1998 £000
Finished goods	199	221

The Company had no stocks at 31 December 1999 and 1998.

15/Debtors.

	Group		Company	
	1999	1998	1999	1998
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	13,700	8,905	-	_
Prepayments and accrued income	2,651	2,482	145	215
Corporation tax	1,787	_	164	_
Other debtors	963	585	_	_
Deferred tax (see note 18)	_	336	_	_
Amounts owed by group undertakings	-	_	23,600	_
	19,101	12,308	23,909	215
Amounts falling due after more than one year				
Amounts owed by group undertakings	-	_	-	6,521
Prepayments and accrued income	22	33	13	_
	22	33	13	6,521
Total debtors	19,123	12,341	23,922	6,736

16/Creditors: amounts falling due within one year.

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Trade creditors	1,052	866	-	_
Amounts owed to group undertakings	-	_	-	9
Amounts owed to associated undertakings – trading balances	40	47	-	_
Corporation tax	450	1,259	-	477
Other taxation and social security	391	290	-	_
Other creditors	149	149	1	_
Accruals and deferred income	13,979	9,639	-	_
	16,061	12,250	1	486

17/Financial instruments.

Use of financial instruments. The group's primary objectives in using financial instruments are the management of foreign exchange risk and the maximisation of returns from financial assets.

The group's earnings and liquidity are affected by fluctuations in foreign currency exchange rates, principally the US dollar rate, reflecting the fact that most of the group's revenues and cash receipts are denominated in US dollars while the large majority of its costs are in sterling. The group reduces this US dollar/sterling risk where possible by currency hedging. Due to the high value and timing of receipts on individual licences and the requirement to settle certain expenses in US dollars, the group reviews its foreign exchange exposure on a regular basis. It then hedges this exposure using forward contracts for the sale of US dollars, which are negotiated with major clearing banks.

As at 31 December 1999 the group had outstanding forward contracts to sell \$25,500,000 against US dollar cash of \$23,285,000 and US dollar trade debtors of \$22,039,000. The group had sufficient US dollar assets to meet the forward contract obligations. Total forward contract exposure is approximately 56% of US dollar assets which reflects the fact that the group does not need to hedge its US dollar exposure fully by using forward contracts. This level of exposure is consistent with that at 31 December 1998 and during the current year. Overseas operations have a US dollar requirement, which can be met from the group's US dollar revenues.

Forward contracts are entered into with the objective of matching their maturity with US dollar cash receipts. The group receives most of its cash in single large receipts. Because of this uncertainty some forward contracts are entered into which allow exercise between two dates. These are typically between three and four months from the invoice date.

It is not the group's policy to remit the profits of foreign subsidiaries to the UK, but rather to invest those profits in the subsidiary in which they were earned. The group does not hedge the foreign net asset investment using foreign currency loans.

The group's earnings may be affected by changes in interest rates available on bank deposits. The group aims to maximise returns from funds held on deposit and uses money market deposits with major clearing banks accordingly.

The group had no long term debt at 31 December 1999 or 1998.

Numerical disclosures are set out in the tables below. Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk of financial assets.

		1999			1998	
Currency	Cash at bank and in hand £'000	Short term investments £'000	Total £'000	Cash at bank and in hand £'000	Short term investments £'000	Total £′000
Sterling	450	34,145	34,595	593	32,150	32,743
US dollars	4,873	10,220	15,093	1,454	4,387	5,841
EU currencies (other than sterling)	208	1,000	1,208	8	558	566
Other currencies	266	642	908	441	_	441
At 31 December	5,797	46,007	51,804	2,496	37,095	39,591
Floating rate	5,797	-	5,797	2,496	_	2,496
Fixed rate	_	46,007	46,007	_	37,095	37,095
At 31 December	5,797	46,007	51,804	2,496	37,095	39,591

The fixed rate cash and short term investments in sterling and US dollars were placed with banks for between one week and three months and earn interest of between 4.75% and 6%. Floating rate cash earns interest based on relevant national LIBID equivalents.

17/Financial instruments/continued.

Fair values of financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and short term investments. The carrying amount approximates fair value because of the short maturity of those instruments. Foreign currency forward contracts. The fair value of foreign currency forward contracts is estimated using the settlement rates. Both at the year end and during the year the fair values of forward foreign currency contracts did not differ materially from the carrying value due to the short maturity periods of the contracts.

Currency exposure. The table below shows the extent to which group companies have monetary assets and liabilities in currency other than their local currency. Foreign exchange differences on re-translation of these assets and liabilities are taken to the profit and loss account of the group companies and the group.

1999	US dollars £′000	EU currencies £'000	Other currencies £′000	Total £′000
Functional currency of group operation				
Sterling	24,864	1,208	7	26,079
Other currencies	128	_	-	128
Total	24,992	1,208	7	26,207
1998				
Functional currency of group operation				
Sterling	13,761	566	92	14,419
Total	13,761	566	92	14,419

Hedges. The group's hedging policy is to hedge currency risk using forward foreign currency contracts for foreign currency debtors. No amounts remain unrecognised and no material amounts were deferred at the year end.

Financial instruments held for trading purposes. The group does not trade in financial instruments.

18/Provisions for liabilities and charges.

The movement in the group's deferred tax asset/(provision) is as follows:

	1999	1998
	£000	£000
At 1 January (see note 15)	336	_
(Charged)/credited to the profit and loss account	(336)	336
Other	(69)	_
At 31 December	(69)	336

The deferred tax asset at 31 December 1998 was included in debtors.

The Company has no potential liability for deferred taxation. The analysis of deferred tax liabilities and assets for the group is as follows:

	Amount recognised		Amount not recognised	
	1999 £000	1998 £000	1999 £000	1998 £000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	24	_	924	(307)
Losses carried forward	_	_	880	_
Other	45	(336)	26	(87)
	69	(336)	1,830	(394)

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries because there is no intention in the foreseeable future that such profits will be remitted.

19/Called up share capital.

	1999 £000	1998 £000
Authorised 316,000,000 ordinary shares of 0.25p each (1998: 316,000,000)	790	790
Allotted, called up and fully paid 191,970,805 ordinary shares of 0.25p each (1998: 188,854,516)	480	472

The Company sub-divided its issued share capital on 20 April 1999 in the ratio of 4 new ordinary shares of 0.25p each for 1 old ordinary share of 1p each. Comparative information in the table above has been restated accordingly.

2,336,289 ordinary shares of 0.25p each were issued in the year for cash consideration of £287,342. The issue of these shares occurred on the exercise of share options at various times during the year.

780,000 ordinary shares of 0.25p were issued on 8 November 1999 and purchased by the QUEST for £15,369,900.

19/Called up share capital/continued.

Share options. The Company had the following ordinary share options outstanding at 31 December 1999.

	Ordinary shares		Period o	of option
Date of issue	of 0.25p each Number ***	Exercise price ***	Earliest date	Latest date
29 January 1993	492,000	£0.0225	29 January 1996	28 January 2003
7 February 1994	682,000	£0.0475	7 February 1997	6 February 2004
16 February 1995	820,000	£0.0875	16 February 1998	15 February 2005
15 July 1996	1,502,000	£0.10	15 July 1999	14 July 2006
15 July 1996	348,000	£0.10	15 July 1999	14 July 2003
5 March 1997	3,246,060	£0.13	5 March 2000	4 March 2007
5 March 1997	250,008	£0.13	5 March 1998	4 March 2002 *
5 March 1997	2,322,000	£0.13	5 March 2000	4 March 2004
30 April 1997	30,000	£0.13	30 April 1998	29 April 2002 *
30 April 1997	100,000	£0.13	30 April 2000	29 April 2004
29 May 1997	6,000	£0.2125	29 May 1998	28 May 2002 *
29 May 1997	124,000	£0.2125	29 May 2000	28 May 2004
25 June 1997	13,201	£0.3125	25 June 1998	24 June 2002 *
25 June 1997	76,000	£0.3125	25 June 2000	24 June 2004
1 October 1997	38,005	£0.3125	1 October 1998	30 September 2002 *
1 October 1997	312,000	£0.3125	1 October 2000	30 September 2004
24 December 1997	9,000	£0.3125	24 December 1998	23 December 2002 *
24 December 1997	140,000	£0.3125	24 December 2000	23 December 2004
7 March 1998	336,000	£0.5625	7 March 2001	6 March 2008
7 March 1998	322,033	£0.5625	7 March 1999	6 March 2003 *
17 April 1998 *	191,043	£1.2225	1 June 2000	30 November 2000
17 April 1998 *	223,184	£1.2225	1 June 2003	30 November 2003
17 April 1998 *	812,660	£1.2225	1 June 2001	30 November 2001
8 June 1998	61,802	£1.9375	8 June 1999	7 June 2003 *
8 June 1998	81,800	£1.9375	8 June 2001	7 June 2005
17 August 1998	83,200	£2.6375	17 August 2001	16 August 2008
17 August 1998	43,760	£2.6375	17 August 1999	16 August 2003 *
16 October 1998	42,200	£2.025	16 October 2001	15 October 2008
16 October 1998	15,502	£2.025	16 October 1999	15 October 2003 *
11 March 1999	835,204	£6.12	11 March 2002	10 March 2009
11 March 1999	870,000	£6.12	11 March 2000	10 March 2004 *
11 March 1999	1,469,196	£6.12	11 March 2002	10 March 2006
4 May 1999	43,200	£6.69	4 May 2002	3 May 2009
4 May 1999	11,000	£6.69	4 May 2000	3 May 2004 *
19 May 1999 *	22,111	£5.495	1 July 2001	31 December 2001
10 June 1999 *	29,163	£5.495	1 July 2004	31 December 2004
10 June 1999 *	75,761	£5.495	1 July 2002	31 December 2002
10 August 1999	15,498	£8.825	10 August 2002	9 August 2009
10 August 1999	18,000	£8.825	10 August 2000	9 August 2004 *
10 August 1999	5,202	£8.825	10 August 2002	9 August 2006
16 November 1999	21,530	£21.30	16 November 2002	15 November 2009
16 November 1999	23,520	£21.30	16 November 2002	15 November 2006
Total	16,162,843			

^{*} These relate to options granted under the Company's savings related share option schemes.

^{**} Options are exercisable as follows – 25% maximum on first anniversary, 50% maximum on second anniversary, 75% maximum on third anniversary, 100% maximum on fourth anniversary.

^{***} Both the number of options and the exercise price of options in existence prior to the 4 for 1 share split in April 1999 have been restated to reflect the sub-division.

20/Acquisitions.

The group purchased all of the issued share capital of Micrologic Solutions Limited for a cash consideration of £1,392,000 on 28 October 1999. An immaterial amount of further cash consideration may become payable if certain conditions are met over a period of time. No provision has been made for this contingent consideration.

Following a detailed review of the acquired company's balance sheet and its accounting policies it was considered that no fair value adjustments were necessary.

No indication can be given of the contribution to turnover and operating profit of Micrologic Solutions Limited since acquisition. This is because the business and assets were integrated into those of ARM Limited shortly after the purchase and it is not now possible to identify separately the results or turnover of that part of the business.

In its last financial year to 30 April 1999, Micrologic Solutions Limited made a loss after tax of £163,898. For the period since that date to the date of acquisition, Micrologic Solutions Limited's management accounts show:

	1999 £000
Turnover	910
Profit before taxation	195
Taxation	(59)
Profit attributable to shareholders	136
Details of the net assets acquired and goodwill arising on acquisition were as follows:	
	1999
	£000
Tangible fixed assets	35
Debtors	363
Creditors	(264)
Taxation	(9)
Cash	140
Net assets acquired	265
Goodwill	1,127
Consideration satisfied by cash	1,392

The combination has been accounted for using acquisition accounting.

21/Share premium account and reserves.

Group	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 1999	37,888	(109)	11,073
Foreign exchange difference on consolidation	_	164	_
Premium on issue of new shares	15,368	_	_
Premium on exercise of share options	281	_	_
Contribution to QUEST (see note 13)	_	_	(14,411)
Retained profit for the year	_	_	16,949
At 31 December 1999	53,537	55	13,611

Other reserves represent exchange differences arising on consolidation of foreign subsidiary undertakings.

At 31 December 1999	53,537	5,757
Retained profit for the year	_	5,481
Contribution to QUEST (see note 13)	_	(14,411)
Dividend received from UK subsidiary company	_	13,200
Premium on exercise of share options	281	_
Premium on issue of new shares	15,368	_
At 1 January 1999	37,888	1,487
Company	£000	£000
	premium account	Profit and loss account

22/Reconciliation of movements in shareholders' funds.

Group	1999 £000	1998 £000
Profit attributable to shareholders	16,949	6,639
Dividends	-	(4,000)
	16,949	2,639
Other recognised gains and losses relating to the year	164	23
New share capital issued	8	84
Share premium on issue of new shares	15,649	39,692
Issue expenses	-	(5,435)
Contribution to QUEST	(14,411)	
Credit on US employee share options	-	126
Net addition to shareholders' funds	18,359	37,129
Opening shareholders' funds	49,324	12,195
Closing shareholders' funds	67,683	49,324

23/Minority interests.

	£000
At 1 January 1999	50
Profit and loss account	64
Equity minority interests at 31 December 1999	114

24/Reconciliation of operating profit to net cash inflow from operating activities.

	1999	1998
	£000	£000
Operating profit	16,523	8,314
Depreciation on tangible fixed assets	4,581	3,083
(Gain)/loss on sale of tangible fixed assets	(4)	14
Amortisation and impairment of goodwill	133	5
Decrease/(increase) in stocks	23	(58)
(Increase) in trade debtors	(4,433)	(2,598)
Decrease/(increase) in prepayments and accrued income	100	(77)
Increase/(decrease) in trade creditors	164	(178)
(Decrease) in other taxation and social security	(59)	(71)
Increase in accruals, deferred income and other creditors	4,186	2,870
Net cash inflow from operating activities	21,214	11,304

25/Reconciliation of net cash flow to movement in net funds.

	1999	1998
	£000	£000
Increase in cash for the year	3,176	401
Cash outflow from purchase of short term investments	8,912	31,762
Change in net funds from cash flows	12,088	32,163
Other non-cash items:		
Translation difference	125	23
Movement in net funds in the year	12,213	32,186
Net funds at start of year	39,591	7,405
Net funds at end of year	51,804	39,591

26/Analysis of net funds.

	Cash at bank and in hand £000	Short term investments £000	Total £000
At 1 January 1999	2,496	37,095	39,591
Cash flow	3,036	8,912	11,948
Acquired with subsidiary	140	_	140
Translation differences	125	_	125
At 31 December 1999	5,797	46,007	51,804

27/Cash flow from acquisitions.

	1999 £000	1998 £000
Acquisitions		
Purchase of subsidiary undertakings	(1,200)	(23)
Acquisition expenses	(127)	_
Cash at bank and in hand acquired with subsidiaries	140	_
Net cash outflow from acquisition	(1,187)	(23)

28/Capital commitments.

Group	1999 £000	1998 £000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,473	451

The Company had no capital commitments at 31 December 1999 and 1998.

29/Financial commitments.

At 31 December 1999 the group had annual commitments under non-cancellable operating leases as follows:

	1999		1998	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Expiring within one year	59	3	27	1
Expiring between two and five years inclusive	236	50	321	26
Expiring in over five years	1,683	-	1,354	_
	1,978	53	1,702	27

At 31 December 1999 and 1998 the Company had no annual commitments under non-cancellable operating leases.

30/Related party transactions.

The Company has taken advantage of the exemption available to parent companies under Financial Reporting Standard 8 ("Related Party Disclosures") where transactions and balances between group entities have been eliminated on consolidation.

The directors regard Palmchip Corporation as a related party by virtue of its being an associated undertaking. Acorn Group plc was considered to be a related party until June 1999 because it had a 24% interest in the equity share capital of the Company until this date, and no disclosure has been made of transactions since that date or of balances at the year end. Micrologic Solutions Limited is a related party for 1998 and 1999 since the group acquired 100% of its share capital during the year. Transactions after the date of acquisition have been eliminated on consolidation and have not been disclosed.

Details of transactions between these parties and the Company's wholly owned subsidiary, ARM Limited, are as follows:

Micrologic Solutions Limited. ARM Limited purchased software services to the value of £94,960 during 1999 up to the date of acquisition (1998: £40,100). At 31 December 1998 an amount of £nil was outstanding.

Palmchip Corporation. ARM Limited supplied goods and services to Palmchip Corporation to the value of £2,115 (1998: £1,068) and has purchased consulting services to the value of £189,456 (1998: £231,725) in the year.

ARM Limited made a loan of £248,000 to Palmchip during the year against which a full provision has been made.

At the year end a trading balance of £40,000 (1998: £46,692) remained outstanding.

Acorn Group plc. On 2 February, 1999 the group completed the purchase for £190,000 of the leasehold interest in a 13,000 square foot building from Element 14 Limited, a wholly owned subsidiary of Acorn Group plc, a transaction supported by independent valuation.

During the year ARM Limited purchased services from Acorn Computers Limited, a subsidiary of Acorn Group plc, to the value of £4,000 (1998: £86,145). No goods or services were supplied to Acorn Computers Limited during the year (1998: £23,500).

During 1998 Acorn Computers Limited made amounts of tax consortium relief relating primarily to the 1997 accounting period available to both the Company and its subsidiary, ARM Limited, as follows; ARM Holdings plc: £8,191, ARM Limited: £497,604. At 31 December 1998 £155,376 remained outstanding.

31/Summary of significant differences between UK Generally Accepted Accounting Principles ("UK GAAP") followed by the group and United States Generally Accepted Accounting Principles ("US GAAP").

The financial information set out in this report has been prepared under UK GAAP which differs in certain significant respects from US GAAP. The principal differences between the group's accounting policies under UK GAAP and those that would have been followed had the financial information been prepared under US GAAP are set out below.

Employee share options. Under both UK and US GAAP, if options are issued at below fair market value there is a compensation cost. Under US GAAP, this cost is charged to the profit and loss account over the vesting period of the options. The conventions used to determine the fair market value can be, and in this case are, different under US GAAP, resulting in no charge for the Company under UK GAAP but a charge for the Company under US GAAP, for options issued in the period from March 1997 to March 1998.

Deferred taxation. Under UK GAAP, provision for deferred taxation is made only to the extent that liabilities are expected to crystallise in the foreseeable future. Under US GAAP, deferred taxation is recorded in respect of all temporary differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts in future years and are recognised only to the extent that it is more likely than not that they will be realised. As a consequence of this difference, shareholders' equity is increased in each period by the value of the deferred tax assets on temporary differences recognised under US GAAP and the deferred tax charge in each period differs by the movement in these asset balances.

Consolidated profit and loss account. Under UK GAAP, profit before tax is stated before minority interests. Under US GAAP, income before income tax is stated after minority interests.

Dividends. Under UK GAAP, retained profit is stated after dividends paid and proposed. Under US GAAP, net income is stated before dividends.

Earnings per share. Diluted earnings per share for the year ended 31 December 1998 under UK GAAP (note 10) have been calculated based on profit before preference dividend and assuming conversion of preference shares at the beginning of that year. The calculation for the same period under US GAAP has used profit after preference dividend with no assumed conversion of preference shares.

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

Tax on US share options. In the US the group is entitled to a tax deduction for the amount treated as compensation under US tax rules for employee share options, which have been exercised by US employees during the year. This amount is equivalent to the difference between the option exercise price and the fair market value of the shares at the date of exercise. Under UK GAAP the tax benefit arising from this deduction is included in the tax charge in the profit and loss account. Under US GAAP, the tax benefit is recorded as an increase in shareholders' funds.

Consolidated statement of cash flows. The consolidated statement of cash flows prepared under UK GAAP presents substantially the same information as that required under US GAAP. These presentations differ, however, with regard to classification of items within the statements and as regards the definition of the cash and cash equivalents.

Under UK GAAP, cash does not include short term deposits and investments which cannot be withdrawn without notice and without incurring a penalty. Such items are shown as short term investments. Under US GAAP, deposits with a maturity of less than three months at inception which are convertible into known amounts of cash are included as cash and cash equivalents. Under UK GAAP cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investments, acquisitions and disposals, management of liquid resources and financing activities. US GAAP, however, requires only three categories of cash flow activity to be reported: operating, investing and financing. Cash flows from taxation and returns on investments and servicing of finance shown under UK GAAP are included as operating activities under US GAAP.

31/Summary of significant differences between UK Generally Accepted Accounting Principles ("UK GAAP") followed by the group and United States Generally Accepted Accounting Principles ("US GAAP")/ continued.

(a) Reconciliation of UK GAAP operating profit to US GAAP income from operations.

(a) Reconclination of the GAAP operating profit to us GAAP income from operations.	1999 £000	1998 £000
Group operating profit as reported under UK GAAP	16,523	8.314
Adjustments for share option compensation cost	(736)	(723)
Income from operations as reported under US GAAP	15,787	7,591
(b) Reconciliation of UK GAAP profit before tax to US GAAP income before income tax.		
	1999 £000	1998 £000
Profit before tax as reported under UK GAAP Adjustments for:	18,789	10,154
Share option compensation cost Minority interest	(736) (64)	(723) (8)
Income before income tax as reported under US GAAP	17,989	9,423
(c) Reconciliation of UK GAAP retained profit to US GAAP net income.		
	1999 £000	1998 £000
Retained profit as reported under UK GAAP Adjustments for:	16,949	2,639
Movements in deferred tax assets Dividend	1,433	136 4,000
Share option compensation cost Tax deduction for US employee share options	(736) (1,414)	(723) —
Net income as reported under US GAAP	16,232	6,052
(d) Reconciliation of shareholders' equity from UK to US GAAP.		
	1999 £000	1998 £000
Shareholders' funds as reported under UK GAAP Adjustments for:	67,683	49,324
Recognition of deferred tax assets on temporary timing differences	947	394
Investment in own shares/treasury stock Contribution to QUEST	(16,808) 14,411	(1,438)
Tax benefit on US employee share options	880	_
Shareholders' equity as reported under US GAAP	67,113	48,280
(e) Reconciliation of UK GAAP cash to US GAAP cash and cash equivalents.		
	1999 £000	1998 £000
Cash as reported under UK GAAP Adjustment for short term investments treated as cash equivalents under US GAAP	5,797 46,007	2,496 37,095
Cash and cash equivalents as reported under US GAAP	51,804	39,591

ARM/Report of the Auditors/UK Format.

Report of the auditors to the members of ARM Holdings plc. We have audited the financial statements on pages 40 to 65, which have been prepared under the accounting policies set out on pages 44 to 45.

Respective responsibilities of directors and auditors. The directors are responsible for preparing the Annual Report. As described on page 35 this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards.

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 33 to 35 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion. We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion. In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the group at 31 December 1999 and the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers. Chartered Accountants and Registered Auditors

Cambridge

14 February 2000

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ARM/Selected Consolidated Financial Data/US Format.

The following selected financial data should be read in conjunction with, and is qualified in its entirety by, reference to the financial statements of ARM Holdings plc, expressed in sterling, set forth on pages 74 to 91 of this report.

Selected consolidated financial data - US GAAP.

	1995	1996	1997	1998	1999
		(in thousands)			
Revenues	£9,674	£16,694	£26,580	£42,268	£62,120
Cost of revenues	1,032	4,095	6,685	8,316	9,803
Operating expenses	6,268	8,997	15,807	26,361	36,530
Income from operations	2,374	3,602	4,088	7,591	15,787
Provision against investment	_	(199)	_	_	-
Interest, net	247	269	484	1,911	2,266
Share of loss of equity affiliate	_	_	(31)	(71)	-
Minority interest	_	_	(15)	(8)	(64)
Income before income tax	2,621	3,672	4,526	9,423	17,989
Provision for income taxes	757	1,029	1,615	3,371	1,757
Net income	1,864	2,643	2,911	6,052	16,232
Earnings per common share (assuming dilution)	1.2p	1.7p	1.8p	1.9p	8.0p
IPO dividend per common share	_	_	_	2.5p	_
Research and development as a percentage of revenues	23.2%	17.6%	24.7%	30.1%	27.6%
Capital expenditure	£1,147	£1,759	£4,033	£6,402	£5,900
Cash and cash equivalents	£3,627	£10,115	£7,405	£39,591	£51,804
Shareholders' equity	£6,414	£9,011	£12,454	£48,280	£67,113
Total assets	£10,764	£16,011	£21,961	£60,580	£83,288
Employees at year end	129	162	274	354	443

ARM/Management's Discussion and Analysis of Financial Condition and Results of Operations/ US Format.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The matters addressed in this Management Discussion and Analysis of Financial Condition and Results of Operations, with the exception of the historical information presented, contain forward-looking statements involving risks and uncertainties.

Overview. ARM designs high performance, low-cost, power-efficient RISC microprocessors and related technology and software, and sells development systems, to leading international electronics companies, which in turn manufacture, market and sell microprocessors, application specific integrated circuits (ASICs) and application specific standard products (ASSPs) based on the ARM architecture to systems companies. ARM also licences and sells development systems directly to systems companies and provides consulting and support services to its licensees, systems companies and other system designers. ARM has developed an innovative, intellectual property-centred and market-driven business model in which it neither manufactures nor sells the products incorporating ARM technology, but concentrates on the research and development, design and support of ARM architecture and supporting development tools and software.

The table below sets forth, for the periods indicated, the percentage of total revenues represented by certain items reflected in the Company's consolidated statements of operations.

tonsolidated statements of operations.		Year ended December 31,	
	1997	1998	1999
Revenues			
Product revenues	75.8%	83.2%	80.7%
Service revenues	24.2%	16.8%	19.3%
Total revenues	100.0%	100.0%	100.0%
Cost of revenues			
Product costs	13.3%	9.3%	7.4%
Service costs	11.8%	10.3%	8.4%
Total cost of revenues	25.1%	19.6%	15.8%
Gross profit	74.9%	80.4%	84.2%
Operating expenses			
Research and development	24.7%	30.1%	27.6%
Sales and marketing	21.3%	20.7%	18.6%
General and administration	13.5%	11.0%	11.8%
Provision for doubtful accounts	_	0.6%	0.6%
Amortization of goodwill	_	_	0.2%
Total operating expenses	59.5%	62.4%	58.8%
Income from operations	15.4%	18.0%	25.4%
Interest, net	1.9%	4.5%	3.6%
Share of loss of equity affiliate	(0.1%)	(0.2%)	_
Minority interest	(0.1%)	_	(0.1%)
Income before income tax	17.1%	22.3%	28.9%
Provision for income taxes	6.1%	8.0%	2.8%
Net income	11.0%	14.3%	26.1%

ARM/Management's Discussion and Analysis of Financial Condition and Results of Operations/ US Format.

Product revenues. Product revenues consist of license fees, sales of development systems and royalties. Product revenues for 1997, 1998 and 1999 were £20.1 million, £35.2 million and £50.1 million, representing 76%, 83% and 81% of total revenues respectively.

License revenues as a percentage of total revenues increased from approximately 60% in 1997 to approximately 64% in 1998 but decreased to approximately 54% in 1999. The ARM7TDMI core remained the key entry point to the Company's technology and the main product licensed during 1997, 1998 and 1999. It accounted for 55% of license revenues in 1997, 63% of license revenues in 1998 but fell to 45% in 1999. This decline reflected the growing amount of licensing activity, particularly from existing partners who licensed further products including other cores, peripherals, models and other supplementary technology.

Eight new licensees were signed in 1999 bringing the total number of semiconductor partners to 38. However, with the acquisition of VLSI Technology by Philips Semiconductor in 1999, the total number of semiconductor partners stood at 37 at the end of the year. Two of the new licensees took 'per use' licenses which limits the rights to use the technology to a specified number of design projects. Licensing activity with existing semiconductor partners was higher in 1999. Five took licenses to ARM9 core technology, bringing the total to twelve while two took licenses for the new ARM10 core technology. One existing partner took an architecture license to the Company's latest instruction set, version 5TE. Eleven further licenses were sold to existing partners for modified versions of various cores already licensed.

Two additional licensees joined the Company's RTOS program during the year bringing the total number of participants to 15. During the year, license revenue was also generated from the Company's Windows CE Consortium, a similar arrangement to the RTOS program, and at December 31, 1999 two further partners had joined this bringing the total number to six.

Revenues from the sale of development systems increased from £2.2 million in 1997 to £4.4 million in 1998 and £5.6 million in 1999 representing approximately 8%, 10% and 9% of total revenues in 1997, 1998 and 1999 respectively. The increase in revenues reflected the growing number of products available to help engineers in designing products using the ARM architecture. A number of new development system products were introduced during the year, and the Company moved towards selling development systems on a 'per seat' basis using license management software so as to monitor licensee compliance with the license terms.

Royalties are either set as a percentage of the licensee's net sales price per chip or, less frequently, as a fixed amount and are recognized when the Company receives notification from the customer of product sales. Royalties increased from £2.2 million in 1997 to £3.6 million in 1998 and £11.1 million in 1999 representing 8%, 8% and 18% of total revenues in 1997, 1998 and 1999 respectively. With the significant increase in volume shipments from less than 10 million units in 1997 to 51 million units in 1998, and an estimated 175 million units for the calendar year 1999, royalty revenues have increased over this period and the Company expects royalty revenues to continue to grow although they may be subject to significant fluctuations.

Service revenues. Service revenues consist of design consulting services and revenues from support, maintenance and training. Service revenues increased from £6.4 million in 1997 to £7.1 million in 1998 and £12.0 million in 1999 representing 24%, 17% and 19% of total revenues in 1997, 1998 and 1999 respectively. Consulting revenues increased from £3.7 million in 1997, decreased in 1998 to £3.0 million but increased in 1999 to £6.5 million. The growth in consulting revenues was due to two factors: firstly, consulting revenues were depressed in 1998 as less engineering resource was allocated to this activity and this was rectified in 1999. Secondly, in 1999, consulting fees for design transfer, paid by licensees to have their chosen ARM technology optimized for their manufacturing process, rose between 1998 and 1999 from £1.0 million to £2.4 million as more licensees chose to target multiple manufacturing processes.

Revenues from support, maintenance and training increased from £2.8 million in 1997 to £4.1 million in 1998 and £5.5 million in 1999. The growth in these revenues reflects the increase in the number of new licensees during this period as well as some growth in training opportunities.

Geographic analysis. Operating in a global environment, the geographic destinations of the Company's revenues fluctuate from period to period depending upon the country of origin of its customers. The pattern of revenues in 1999 was very similar to that of 1998, with revenues from the United States representing 53%, the Asia Pacific region 34% and Europe 13%. 1997 had a bigger proportion of revenues from the United States, being around two thirds of revenues in that year.

Product costs. Product costs are limited to variable costs of production such as the costs of manufacture of development systems and costs incurred in making third party operating systems compatible with the ARM architecture. Product costs were £3.5 million in 1997, £3.9 million in 1998 and £4.6 million in 1999 representing 13%, 9% and 7% of total revenues in 1997, 1998 and 1999 respectively. These costs, which had grown rapidly in 1996 and 1997 due to the relatively high costs of porting certain real time operating systems, levelled out in 1998 and 1999 as less porting activity was required. This helped improve the product gross margin in 1999 which was 91% compared to approximately 89% in 1998 and 82% in 1997. The Company does not currently expect a significant increase in product costs in 2000 although this may be subject to significant fluctuations as management decides to port different operating systems to run on the ARM architecture.

ARM/Management's Discussion and Analysis of Financial Condition and Results of Operations/ US Format.

Service costs. Service costs include the costs of support and maintenance services to licensees of the technology as well as the costs directly attributable to consulting work performed for third parties. Cost of services increased from approximately £3.1 million in 1997 to £4.4 million in 1998 and £5.2 million in 1999. The service gross margin was approximately 51% in 1997, 38% in 1998 and 57% in 1999. The decline in 1998 was mainly due to the Company undertaking one strategically important and complex consulting project which was less profitable than anticipated and this lowered the overall service gross margins. Service margins in 1999 rose due to higher margin consulting projects and a large increase in the more profitable design transfer work.

Research and development. Research and development costs increased from £6.6 million in 1997 to £12.7 million in 1998 and £17.2 million in 1999, representing 25%, 30% and 28% of total revenues, respectively. Included in research and development costs for 1997, 1998 and 1999 were non-cash compensation expense of £176,000, £280,000 and £284,000 respectively relating to stock options granted between March 1997 and March 1998. Research and development costs remain an important part of the Company's strategy. Current projects include next-generation wireless applications including Bluetooth solutions, additional versions of the ARM9 architecture, further power and performance optimization of the ARM10 architecture and enhanced applications software and development tool offerings. Total engineering headcount increased from 152 at the end of 1997 to 189 at the end of 1998 and 264 at the end of 1999. In addition to ARM staff, there were approximately 20 contractors employed at the end of 1997 and approximately 30 contractors at the end of 1998 although this number fell to 16 in 1999 as suitable employees were recruited. Grant income receivable from the European Union, which is netted against research and development expenses, amounted to £0.8 million in 1997, £0.9 million in 1998 but fell to £0.2 million in 1999 as many European projects came to an end. The absolute level of grant income is not expected to grow significantly over the next few years.

Sales and marketing. Sales and marketing expenditure increased from £5.7 million in 1997 to £8.8 million in 1998 and £11.6 million in 1999, representing 21% of total revenues in 1997, 21% in 1998 and 19% in 1999. Included in sales and marketing costs for 1997, 1998 and 1999 were non-cash compensation expense of £160,000, £262,000 and £268,000 respectively relating to stock options granted between March 1997 and March 1998. Headcount in this area increased from 86 at the end of 1997 to 123 at the end of 1998 and 127 in 1999. Although headcount did not increase significantly, sales and marketing costs rose by 32% reflecting increased establishment costs in the United States, Japan and Europe and higher marketing costs. The total number of offices with sales people is currently 10 and this enables improved contact with the Company's geographically diverse customer base. There are plans to open further sales offices during 2000, probably in Europe and the Far East, depending on market conditions.

General and administrative. General and administrative headcount increased from 36 at the end of 1997 to 42 at the end of 1998 and 52 at the end of 1999. General and administrative costs rose from £3.6 million in 1997 to £4.7 million in 1998 and £7.3 million in 1999, representing 14%, 11% and 12% of total revenues, respectively. Included in general and administrative costs in 1997, 1998 and 1999 were non-cash compensation expense of £128,000, £181,000 and £184,000 respectively relating to stock options granted between March 1997 and March 1998. The increased level of cost in 1999 was due to a number of factors. These included increased office accommodation in Los Gatos, USA, and Maidenhead, UK, the compliance costs of being a dual listed company and additional professional and advisory fees. There was a gain on foreign exchange of £0.1 million in 1997, an exchange loss of less than £0.1 million in 1998 and an exchange gain of £0.3 million in 1999. See "Foreign Currency Fluctuations" below.

Amortization of goodwill. Amortization of £0.1 million of goodwill was made in 1999 in relation to the acquisition of Micrologic Solutions Limited, a private company based in Cambridge, UK which the Company purchased for £1.3 million in October 1999. Goodwill of approximately £1.1 million is being amortized over a two year period which commenced in November 1999.

Interest. Interest grew from £0.5 million in 1997 to £1.9 million in 1998 and £2.3 million in 1999 reflecting the additional interest earned from the £34.0 million cash raised at the Company's initial public offering in April 1998 and the subsequent strong cash generation in 1998 and 1999. The Company invested these cash balances over periods of up to three months during the year as investment over longer periods would not have generated a significantly higher return.

Income before income tax. Income before income tax grew from £4.5 million in 1997 to £9.4 million in 1998 and to £18.0 million in 1999 representing 17%, 22% and 29% of total revenues respectively. The growth in overall margins was principally attributable to higher royalty revenues as discussed above.

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Tax charge. The Company's effective tax rates were 36% in 1997, 36% in 1998 and 10% in 1999. In 1999, tax rates dropped very significantly. The principal reason for this was the establishment of a Qualifying Employee Share Ownership Trust ("QUEST"), a trust set up to acquire new shares in the Company for the benefit of employees and directors of the group. The contribution by the Company to the QUEST for the purchase of 780,000 shares by the QUEST in November 1999 is a tax deductible expense under existing UK tax legislation. Full details with respect to the QUEST are disclosed in footnote 1 of the Financial Statements.

Liquidity and capital resources. The Company's operating activities provided net cash of £1.5 million, £9.6 million and £18.9 million in 1997, 1998 and 1999 respectively. In 1997, cash generated by operations was adversely affected by the increase in accounts receivable of £4.7 million and the increase in prepaid expenses and other current assets of £1.5 million. In 1998, the net change in assets and liabilities was insignificant. In 1999, the main impact largely on cash generated from operations was an increase in accounts receivable of £4.8 million and a reduction in income taxes payable of £2.6 million, largely as a result of the implementation of the QUEST.

At December 31, 1999, the Company recorded approximately £7.5 million in deferred revenues (December 31, 1998: £4.4 million; December 31, 1997: £3.7 million) which represented cash or receivables scheduled to be recognized in revenues in varying amounts over the twelve months following December 31, 1999.

Cash flow from operations has been used to fund the working capital requirements of the Company as well as fixed asset expenditure. Capital expenditure in 1999 fell slightly to £5.9 million from £6.4 million in 1998 and £4.0 million in 1997. The higher expenditure in 1998 was largely due to the need to invest in new design automation tools and the costs of establishing new design centres in Austin, Texas and Maidenhead, UK. During 1999, the Company had expected higher capital expenditure with the addition of the new offices in Cambridge, UK and Los Gatos, California, but approximately £1.5 million of expenditure expected in 1999 has been deferred until 2000.

During 1996, the Company made two investments in small start-up companies, namely Sirius Communications NV and Palmchip Corporation ("Palmchip"). This amounted to £0.2 million in aggregate. In 1997, the Company made a further investment in Palmchip and converted its existing loan to give the Company a 45% shareholding. For the year ended December 31, 1999, Palmchip broke even (1998: loss of £71,000; 1997: loss of £31,000).

During 1999, the Company purchased the entire share capital of Micrologic Solutions Limited, a 25-person applications software house for a cost of £1.3 million. This company has been subsequently absorbed within the Company's software group.

The Company envisages making strategic investments in the future, in situations where the Company can broaden its product portfolio, where it can obtain skilled engineering resources and where the potential for furthering ARM based design wins is improved significantly.

Cash balances at December 31 were £7.4 million in 1997, £39.6 million in 1998 and £51.8 million in 1999. With a relatively small number of sales invoices, many of which have a high value, accounts receivable fluctuate considerably. At December 31, 1997, accounts receivable were £6.3 million compared to £8.9 million at December 31, 1998 and £13.7 million at December 31, 1999 which represented 24%, 21% and 22% of revenues, respectively.

Foreign currency fluctuations. The Company's earnings and liquidity are affected by fluctuations in foreign currency exchange rates, principally the US dollar rate, reflecting the fact that most of the Company's revenues and cash receipts are denominated in US dollars while the large majority of its costs are in sterling. The Company reduces this dollar/sterling risk where possible by currency hedging. Due to the high value and timing of receipts on individual licenses and the requirement to settle certain expenses in US dollars, the Company reviews its foreign exchange exposure on a transaction by transaction basis. It then hedges this exposure using forward contracts for the sale of US dollars, which are negotiated with major UK clearing banks. The average size of each forward contract was \$2.0 million in 1997, \$1.5 million in 1998 and \$2.5 million in 1999. The Company does not currently use any other financial instruments or derivatives, although the Company is reviewing the use of other financial instruments such as currency options. The fair values of the financial instruments outstanding at the end of December 31, 1997, 1998 and 1999 are disclosed in footnote 12 to the financial statements. The settlement period of the forward contracts outstanding at December 31, 1999 is between January 31 and April 19, 2000.

ARM/Management's Discussion and Analysis of Financial Condition and Results of Operations/ US Format.

Risk factors. The Company believes that its future operating results will continue to be subject to quarterly variations based upon a wide variety of factors. These include the timing of entering into agreements with new licensees, the mixture of license fees, royalties and fees from services, and the introduction of new technology by the Company, the timing of orders from and shipments to systems companies of ARM-based microprocessors from the Company's semiconductor partners and sudden technological change in the microprocessor industry.

Other risks include the reliance on semiconductor partners, dependence upon systems companies, patent protection, attraction and retention of employees, management of growth, competition and vulnerability to general economic conditions. Risk factors are more fully discussed in the Company's annual report on Form 20-F for 1999.

Year 2000. The Year 2000 issue arises from computer programs that were written to use two digits rather than four digits to indicate a particular year. Depending on a computer program's date sensitivity, the program may fail to process dates correctly, and such failure may result in a system shutdown or errors in calculation before or after the Year 2000.

The Company began its Year 2000 project in the first quarter of 1998 and completed it in October 1999. The project had seven discrete stages: project definition, audit, prioritization, evaluation, testing, fixing and replacing.

The strategy adopted by the Company was to conduct thorough audits of its systems using information made available by the suppliers of its hardware and software systems so as to reduce the need for excessive testing of items which did not require modification.

The testing stage of the project began during January 1999 and finished in April 1999. The testing methodology used was established in accordance with the British Standards Institute DISC PD-2000 Definition of Year 2000 Conformity Requirements. The objective of this stage was to test the solutions for identified hardware and software systems to ensure that these systems would cope with the Year 2000 date change. Non compliant items were either fixed or replaced between April and October 1999 when the project ended.

The project was managed by one individual who employed two contractors for the purpose as well as the assistance of regular members of the Company's systems administration department. The project was regularly reviewed by Company management and all staff were made aware of the Year 2000 issue via internal seminars, meetings and publications. The total costs, which related solely to the cost of Company employees and contractors, were approximately £0.2 million.

The Company's core business is the supply of intellectual property and so, with the exception of certain development systems sold by the Company, the Company has no material relationships with suppliers which would prevent the continuation of business if those suppliers were non compliant, although no problems have been experienced to date as a result of date related computer malfunctions at third parties or suppliers.

The Company did not experience any problems with its computer systems as a consequence of the date change on January 1, 2000, nor have any material problems emerged to date as a result.

Impact of the Euro. The Company continues to see no impact to its business practices as a result of the introduction of the Euro.

ARM/Consolidated Statements of Income and Comprehensive Income/US Format.

	1997	1998	1999	1999 *
		(in thousands, exc		
Revenues:				
Product revenues	£20,143	£35,161	£50,141	\$80,812
Service revenues	6,437	7,107	11,979	19,307
Total revenues	26,580	42,268	62,120	100,119
Cost of revenues:				
Product costs	3,542	3,943	4,613	7,435
Service costs	3,143	4,373	5,190	8,365
Total cost of revenues	6,685	8,316	9,803	15,800
Gross profit	19,895	33,952	52,317	84,319
Operating expenses:				
Research and development	6,571	12,711	17,151	27,642
Sales and marketing	5,650	8,758	11,565	18,639
General and administrative	3,581	4,652	7,331	11,815
Provision for doubtful accounts	_	235	384	619
Amortization of goodwill	5	5	99	160
Total operating expenses	15,807	26,361	36,530	58,875
Income from operations	4,088	7,591	15,787	25,444
Interest, net	484	1,911	2,266	3,652
Share of loss of equity affiliate	(31)	(71)	-	-
Minority interest	(15)	(8)	(64)	(103)
Income before income tax	4,526	9,423	17,989	28,993
Provision for income taxes	1,615	3,371	1,757	2,832
Net income	2,911	6,052	16,232	26,161
Net income	2,911	6,052	16,232	26,161
Other comprehensive income:				
Foreign currency adjustments	(83)	23	164	264
Total comprehensive income	2,828	6,075	16,396	26,425
Basic earnings per common share	20.4p ***	2.1p ***	8.6p	13.9c
Earnings per common share (assuming dilution)	1.8p ***	1.9p ***	8.0p	12.9c

^{*} US dollar amounts have been translated from Sterling at the December 31, 1999 closing rate of £1.00 = \$1.6117.

** See footnote 4 for details of the antidilutive effect of the preference shares.

*** Adjusted to reflect the 4 for 1 subdivision of the Company's shares in April 1999.

See footnote 1 for details of restatement of certain comparative information.

	1998	1999	1999 *
	(in the	e data)	
Assets			
Current assets:			
Cash and cash equivalents	£39,591	£51,804	\$83,493
Accounts receivable, net of allowances for doubtful debts of £623,000 (1998: £235,000)	8,905	13,700	22,080
Inventory	221	199	321
Prepaid expenses and other assets	3,083	3,636	5,860
Income taxes receivable	_	1,787	2,880
Total current assets	51,800	71,126	114,634
Deferred income taxes	730	1,758	2,833
Property and equipment, net	7,903	9,280	14,956
Intangible assets	_	1,033	1,665
Prepayments and accrued income	17	-	-
Investments	130	91	147
Total assets	60,580	83,288	134,235
Current liabilities: Accounts payable Income taxes payable	913 1,259	1,092 450	1,760 725
Personnel taxes	290	391	630
Accrued liabilities	5,352	6,600	10,637
Deferred revenue	4,436	7,528	12,133
Total liabilities	12,250	16,061	25,885
Minority interest	50	114	184
	12,300	16,175	26,069
Shareholders' equity**			
Ordinary shares: £0.0025 par value; 316,000,000 authorized (1998: 316,000,000); 191,970,805 issued (1998: 188,854,516)	472	480	774
Additional paid-in capital	39,200	56,999	91,864
Cumulative translation adjustment	(109)	55	89
Retained earnings	10,155	26,387	42,528
	(1,438)	(16,808)	(27,089)
Treasury stock, at cost: 1,780,000 ordinary shares (1998: 1,000,000)	(1,430)		
Treasury stock, at cost: 1,780,000 ordinary shares (1998: 1,000,000) Total shareholders' equity	48,280	67,113	108,166

^{*} US dollar amounts have been translated from Sterling at the December 31, 1999 closing rate of £1.00 = \$1.6117.

** The number of shares has been adjusted to reflect the 4 for 1 share subdivision which took place in April 1999.

	1997	1998	1999	1999
		(in thousands, ex	ccept share data)	
Cash flows from operating activities				
Net income	£2,911	£6,052	£16,232	\$26,161
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of goodwill	1,769	3,088	4,714	7,598
Stock option compensation	464	723	736	1,186
Share of loss of equity affiliates	31	71	-	-
Deferred income taxes	(46)	(471)	386	622
Provision for doubtful accounts	_	235	384	619
Other	27	14	60	97
Changes in operating assets and liabilities				
Accounts receivable	(4,711)	(2,834)	(4,817)	(7,763)
Inventory	(97)	(58)	23	37
Prepaid expenses and other current assets	(1,491)	(112)	(536)	(864)
Accounts payable	584	(178)	164	264
Income taxes payable	1,149	255	(2,605)	(4,198)
Deferred revenue	186	704	3,092	4,983
Accrued liabilities and other creditors	639	2,060	1,094	1,763
Personnel taxes	91	71	(59)	(95)
Net cash provided by operating activities	1,506	9,620	18,868	30,410
Cash flows from investing activities				
Purchase of equipment	(4,033)	(6,402)	(3,624)	(5,841)
Purchase of leasehold improvements	_	_	(2,276)	(3,668)
Sale of equipment	10	38	20	32
Purchase of investments	(237)	(23)	-	-
Purchase of subsidiary, net of cash acquired	_	_	(1,187)	(1,913)
Net cash used in investing activities	(4,260)	(6,387)	(7,067)	(11,390)
Cash flows from financing activities				
Dividend payment	_	(4,000)	_	_
Cash received on issue of shares net of issue expenses	151	34,342	287	463
Purchase of treasury stock	_	(1,438)	_	_
Net cash provided by financing activities	151	28,904	287	463
Effect of foreign exchange on cash and cash equivalents	(107)	49	125	201
Net (decrease)/increase in cash and cash equivalents	(2,710)	32,186	12,213	19,684
Cash and cash equivalents at beginning of period	10,115	7,405	39,591	63,809
Cash and cash equivalents at end of period	7,405	39,591	51,804	83,493
Supplemental disclosure of cash flow information:				
Cash paid for income taxes	529	3,497	4,639	7,477
Cash received on interest	(487)	(1,838)	2,293	3,696

^{*} US dollar amounts have been translated from Sterling at the December 31, 1999 closing rate of £1.00 = \$1.6117



					Additional paid-in	Cumulative translation	Treasury	Retained	
	Ordinary sh	ares	Preference s		capital	adjustment	stock	earnings *	Total
	Number **	Amount	Number **	Amount					
			(i		except share of	data)			
Balances, January 1, 1997	1,545,080	£4	138,700,000	£347	£3,517	£(49))	£5,192	£9,011
Share issue on exercise of options	14,776,000	37			114				151
Conversion of preference shares	20,000,000	50	(20,000,000)	(50)					_
Net income								2,911	2,911
Stock option compensation					464				464
Currency translation adjustment						(83))		(83)
Balances, December 31, 1997	36,321,080	91	118,700,000	297	4,095	(132)) —	8,103	12,454
Issue of ordinary shares	27,469,636	69			39,419				39,488
Share issue on exercise of options	6,363,800	15			273				288
Conversion of preference shares	118,700,000	297	(118,700,000)	(297)					_
Net income								6,052	6,052
Stock option compensation					722				722
Tax effect of stock purchase plan					126				126
Dividends (2.5p per share)**								(4,000)	(4,000)
Share issue expenses					(5,435)				(5,435)
Currency translation adjustment						23			23
Investment in treasury stock							(1,438)		(1,438)
Balances, December 31, 1998	188,854,516	472	_	_	39,200	(109)	(1,438)	10,155	48,280
Issue of ordinary shares	780,000	2			15,368				15,370
Share issue on exercise of options	2,336,289	6			281				287
Net income								16,232	16,232
Stock option compensation					736				736
Tax effect of stock purchase plan					1,414				1,414
Currency translation adjustment						164			164
Investment in treasury stock							(15,370)		(15,370)
Balances, December 31, 1999	191,970,805	480	-	-	56,999	55	(16,808) 2	26,387	67,113

^{*} The amount of shareholders' equity available for distribution to shareholders is the amount of profits determined under UK GAAP in the statutory accounts of the parent company. At December 31, 1999 such distributable profits amounted to £5,757,000.

^{**} The number of shares and the dividend per share have been adjusted to reflect the 4 for 1 share subdivision which took place in April 1999.

ARM/Notes to the Consolidated Financial Statements/US Format.

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1/The Company and a summary of its significant accounting policies.

The business of the Company. ARM Holdings plc and its subsidiary companies design RISC microprocessors and related technology and software, and sell development systems, to enhance the performance, cost-effectiveness and power-efficiency of high-volume embedded applications. The group licenses and sells its technology and products to leading international electronics companies, which in turn manufacture, market and sell microprocessors, ASICs and ASSPs based on the group's architecture to systems companies for incorporation into a wide variety of end products. By creating a network of partners, and working with them to best utilize the group's technology, the group is establishing its architecture as a RISC processor for use in many high volume embedded microprocessor applications, including digital cellular phones, modems and automotive functions and for potential use in many growing markets including smart cards and digital video. The group also licenses and sells development systems directly to systems companies and provides consulting and support services to its licensees, systems companies and other systems designers. The group's principal geographic markets are Europe, the United States, Japan and South Korea.

Incorporation and history. ARM is a public limited company incorporated under the laws of England and Wales. The Company was formed on October 16, 1990 as a joint venture between Apple Computer (UK) Limited and Acorn Computers Limited and operated under the name Advanced RISC Machines Holdings Limited until March 10, 1998 when its name was changed to ARM Holdings plc. Its initial public offering was on April 17, 1998.

Group undertakings include ARM Limited (incorporated in the UK), ARM, INC. (incorporated in the United States), ARM KK (incorporated in Japan) and ARM Korea Limited (incorporated in South Korea).

Basis of preparation. The accompanying consolidated financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in the United States ("US GAAP").

Purely for the convenience of the reader, the December 31, 1999 consolidated financial statements have been translated from sterling at the closing rate on December 31, 1999 at £1.00 = \$1.6117. Such translations should not be construed as representations that sterling could be so converted into US dollars at that rate or at any other rate.

Principles of consolidation. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Intra-group transactions, including sales, profits, receivables and payables have been eliminated on consolidation.

Equity affiliates. Companies in which the group owns between 20% and 50% of the voting stock are treated as equity affiliates. The consolidated statement of income includes the group's share of net income of equity affiliates. The consolidated balance sheet includes investments in equity affiliates at the group's share of the net assets of those undertakings plus unamortized goodwill.

Other investments. Other investments represent the group's 3% holding, held by ARM Limited, of the share capital of Sirius Communications NV. Full provision has been made against this investment.

Goodwill. Purchased goodwill is capitalized and amortized on a straight line basis over a prudent estimate of the time that the Company is expected to benefit from it.

1/The Company and a summary of its significant accounting policies/continued.

Revenue recognition. Revenue consists of license fees received under the terms of license agreements with customers to enable them to use the group's intellectual property ("IP") which is customized to each customer's manufacturing process. The group licenses its IP to leading international electronics companies which in turn manufacture, market and sell microprocessors, ASICs and ASSPs based on the group's architecture to systems companies for incorporation into a wide variety of end products. The group's IP consists of software and related documentation which enables a customer to design and manufacture microprocessors and related technology and software. Each license is designed to meet the specific requirements of each customer and is generally not time limited in its application. In general the time between the signing of a license and final customer acceptance is between nine and 15 months with most time allocated to the period between delivery and acceptance of the technology. Delivery generally occurs within a short time period after signing. The customer obtains license rights to the IP at the time of signing. In addition, the customer obtains ownership of the licensed rights to the in-process customization as well as the completed customization. License fees are invoiced according to an agreed set of milestone payments. Typically the first milestone is on signing of the contract, the second is on delivery of the customized IP (being the IP and other technical information relating to the product licensed) and the third is related to acceptance of the technology by the licensee. No upgrades or modifications to the licensed IP are provided. Following customer acceptance, the group has no further obligations under the license agreement.

Revenues from license fees are recognized based on the percentage to completion method over the period from signing of the license to customer acceptance. The amount of revenue recognized is based on the total license fees under the license agreement and the percentage to completion achieved. The percentage to completion is measured by monitoring progress using records of actual time incurred to date in the project compared to the total estimated project requirement, which corresponds to the costs of earned revenues.

Estimates of total project requirement are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. Under the percentage to completion method, provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined.

In addition to the license fees, contracts generally contain an agreement to provide post contract support (support, maintenance and training) which consists of an identified customer contact at the group and telephonic or e-mail support. Fees for post contract support which take place after customer acceptance are specified in the contract. The fees are determined based on the group's price list as if sold separately. The price list is established and regularly reviewed by management. Revenue for post contract support is recognized on a straight-line basis over the period for which support and maintenance is contractually agreed by the group with the licensee.

Sales of software, including development systems, which are not specifically designed for a given license (such as off the shelf software) are recognized upon delivery. At that time, the group has no further obligations. Services (such as training) that the group provides which are not essential to the functionality of the IP are separately stated and priced in the contract and therefore accounted for separately. Revenue is recognized as services are performed and collectability is probable.

The excess of license fees paid over revenue recognized in respect of such fees is recorded as a deferred revenue liability.

Royalty revenues are earned on sales by the group's customers of products containing ARM technology. Revenues are recognized when ARM receives notification from the customer of product sales.

Revenues from service and maintenance comprise revenues arizing from consulting and support and maintenance contracts. Revenue from consulting is recognized when the service has been provided and all obligations to the customer under the consulting agreement have been fulfilled. Consulting costs are recognized when incurred. Revenue for support and maintenance is recognized on a straight-line basis over the period for which support and maintenance is contractually agreed by the group with the licensee.

Other revenues comprise the sale of boards and software toolkits. These revenues are recognized when the goods are delivered.

Research and development. All ongoing research and development expenditure is expensed in the period in which it is incurred.

General and administrative costs. Certain general and administrative costs have been reallocated to other cost headings, in 1999, to reflect the fact that other departments make use of such facilities. Comparative information for 1998 and 1997 has been restated to reflect this. The impact was to increase research and development, and sales and marketing costs by £1,096,000 and £1,147,000 respectively in 1998 and by £437,000 and £265,000 respectively in 1997.

In addition, exchange differences have now been included in general and administrative costs. In previous years recognized gains and losses were recorded within interest and similar income. The effect of restating the comparatives was to increase general and administrative costs by £46,000 in 1998 and decrease them by £120,000 in 1997.

1/The Company and a summary of its significant accounting policies/continued.

Grants. Grants in respect of specific research and development projects are receivable from the European Commission, a European organization which funds certain research and development activities on application to it for the purposes of furthering research and development activities within the European Union. The group retains significant rights to intellectual property developed under projects which are funded under these arrangements. Grants received are intended to cover 50% of expected project costs. Grant income is recognized over the period of the project in line with the costs incurred. Unconditional undertakings have been received from the European Commission to provide the funding, and there is no obligation to refund any amounts already received. Amounts receivable under these arrangements in the year ended December 31, 1999 were £248,000 (1998: £857,000; 1997: £750,000) and were netted against related research and development costs.

Pension costs. The group contributes to defined contribution plans covering substantially all employees in Europe and the United States and to government pension schemes for employees in Japan and South Korea. The group contributes to these plans based upon various fixed percentages of employee compensation and such contributions are expensed as incurred. The amount of contributions expensed by the group for the years ended December 31, 1997, 1998 and 1999 were £392,000, £628,000 and £853,000 respectively.

Cash equivalents. The group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Inventory. Inventory is stated at the lower of cost and net realizable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective inventory.

Property and equipment. The cost of property and equipment is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of property and equipment, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal economic lives used for this purpose are:

Freehold buildings 25 years

Leasehold improvements 5 years or term of lease whichever is shorter

Computers and software

Fixtures and fittings

Motor vehicles

3 years

5 – 10 years

4 years

Operating leases. Costs in respect of operating leases are charged on a straight line basis over the lease term.

Currency translation. The functional currency for the group's operations is the local currency in which it operates.

The assets and liabilities of subsidiaries denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Statements of income of overseas subsidiaries are translated at the average exchange rate for the period. Translation differences are taken to the cumulative translation adjustment.

The group utilizes forward exchange contracts to hedge firm commitments related to accounts receivable denominated in a currency other than the functional currency of the business. The group's forward exchange contracts do not subject the group to risk from exchange rate movements because the gains and losses on such contracts offset losses and gains, respectively, on the transactions being hedged. Unrealized gains and losses on the forward exchange contracts are deferred and included in the measurement of the related foreign currency transaction. All recognized gains and losses resulting from the settlement of the contracts are recorded within general and administrative costs in the income statement. The group does not enter into foreign exchange contracts for the purpose of hedging anticipated transactions.

Other transactions denominated in foreign currencies have been translated into sterling at actual rates of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies other than those specifically hedged have been translated at rates ruling at the balance sheet date. Exchange differences have been included in general and administrative costs. In previous years recognized gains and losses were recorded within interest and similar income. The effect of restating the comparatives was to increase interest receivable by £46,000 in 1998 and reduce it by £120,000 in 1997.

Income taxes. Income taxes are computed using the liability method. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established against deferred tax assets where it is more likely than not that some portion or all of the asset will not be realized.



1/The Company and a summary of its significant accounting policies/continued.

Basic earnings per share. Basic earnings per common share is computed based on the weighted average number of ordinary shares. Earnings per common share (assuming dilution) is computed by including potential common shares and the conversion of convertible preference shares where the effect of their inclusion would be dilutive. The ordinary equivalent shares for share options were determined using the treasury stock method.

Accounting for stock based compensation. The group has elected to use the intrinsic value-based method to account for all of its employee stock based compensation plans. Under APB Opinion No. 25, Accounting for Stock Issued to Employees, the group has recorded no compensation costs related to its stock options granted in the year ended December 31, 1996 because the exercise price of each option equals or exceeds the fair value of the underlying stock as of the grant date for each stock option. Compensation cost has been recognized for stock options granted in the year ended December 31, 1997 and in March 1998 because the exercise price of the options is less than the fair value of the underlying stock as of the grant date for each stock option. The group has adopted the disclosure requirements of the Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation.

Employee share ownership plans. Treasury stock represents the cost of shares in the Company held by the Employee Benefit Trust ("ESOP") and the Qualifying Employee Share Ownership Trust ("QUEST").

The ESOP was set up on April 16, 1998 to facilitate the recruitment, retention and motivation of employees. No options had been granted over these shares and no shares had been allocated at December 31, 1999. The market value of unearned shares at December 31, 1999 was approximately £41,770,000. All costs relating to the schemes are dealt with in the income statement as they accrue and the ESOP has waived the right to receive dividends of over and above 0.01p per share on all shares held. For the purpose of earnings per share calculations, the shares are treated as cancelled until such time as they vest unconditionally.

The Company established the QUEST, under a deed of trust, on November 5, 1999 to acquire new shares in the Company for the benefit of employees and directors of the group. On November 8, 1999, the Company provided £15,369,900 for this purpose of which £14,410,500 was by way of a gift and £959,400 was by way of a loan.

On the same date, the QUEST subscribed at market value for 780,000 of the Company's 0.25p ordinary shares. The shares rank pari passu in all respects with the existing ordinary shares. They will be allocated to employees and directors to satisfy their options granted under the Company's Save As You Earn Option Schemes.

The cost of the shares has been treated as treasury stock. The excess of the subscription price over the nominal value, which amounts to £15,367,950, has been taken to additional paid-in capital. For the purpose of earnings per share calculations, the shares are treated as cancelled until such time as they vest unconditionally.

Under the terms of the trust deed, dividends have been waived on the shares held by the QUEST, and all costs relating to the scheme are dealt with in the profit and loss account as they accrue.

Use of estimates. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Recently issued accounting standards. In 1998, the US Financial Accounting Standards Board issued SFAS Number 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS Number 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The group is currently reviewing the likely impact in adopting this statement on its measurement of derivative instruments and on the disclosures currently provided in its financial statements.

Companies Act 1985. These financial statements do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985 of Great Britain (the "Companies Act"). The Company's statutory accounts, which are its primary financial statements, are prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP") in compliance with the Companies Act and are presented in pounds sterling. Statutory accounts (upon which the auditors gave unqualified reports under Section 235 of the Companies Act which did not contain statements under sub-sections 237(2) and (3) of the Companies Act) for the years ended December 31, 1997 and 1998 have been, and those for the year ended December 31, 1999 will be, delivered to the Registrar of Companies for England and Wales. Dividends are required to be declared in sterling out of profits available for that purpose as determined in accordance with UK GAAP and the Companies Act.

2/Related party transactions.

The directors regard Acorn Group plc, Palmchip Corporation and Micrologic Solutions Limited as related parties. Details of transactions between these parties and the Company's wholly owned subsidiary, ARM Limited, are as follows:

Acorn Group plc. On February 2, 1999 the group completed the purchase for £190,000 of the leasehold interest in a 13,000 square foot building from Element 14 Limited, a wholly owned subsidiary of Acorn Group plc, a transaction supported by independent valuation.

As at December 31, 1999 Acorn Group plc was not a related party since it sold its equity share capital in the Company during the year.

Prior to Acorn Group plc ceasing to be a related party, ARM Limited engaged with Acorn Computers Limited, a subsidiary of Acorn Group plc, for the supply of design consulting services to the value of £nil in 1999 (1998: £24,000; 1997: £322,000). ARM Limited made purchases of hardware and services from Acorn Computers Limited during 1999 of £4,000 (1998: £86,000; 1997: £205,000).

During 1998 Acorn Computers Limited made amounts of tax consortium relief relating primarily to the 1997 accounting period available to both the Company and its subsidiary, ARM Limited, as follows; ARM Holdings plc: £8,000, ARM Limited:£498,000. At December 31, 1998 an amount of £155,000 remained outstanding.

Palmchip Corporation. ARM Limited supplied goods and services to Palmchip Corporation to the value of £2,000 (1998: £1,000) and has purchased consulting services from Palmchip Corporation to the value of £189,000 (1998: £232,000) in the year ended December 31, 1999. At December 31, 1999 an amount of £40,000 (1998: £47,000) remained outstanding and was included in accounts payable.

During 1999 a loan of £248,000 was made to Palmchip Corporation. This amount has been fully reserved.

Micrologic Solutions Limited. ARM Limited purchased software services to the value of £95,000 (1998: £40,000) during 1999 prior to its being acquired by the group.

3/Income taxes.

Income before income tax is analyzed as follows:

		Year ended December 31,		
	1997	1997 1998	1999	
	(in thousa		ds)	
United Kingdom	£3,661	£8,373	£16,100	
Foreign	865	1,050	1,889	
	4,526	9,423	17,989	

3/Income taxes/continued.

The provision for income taxes consisted of:

	Year ended December 31,		
	1997	1998	1999
		(in thousands)	
Current			
United Kingdom	£1,191	£3,363	£1,228
Foreign	470	479	1,639
Total current	1,661	3,842	2,867
Deferred			
United Kingdom	(22)	(336)	(230)
Foreign	(24)	(135)	(880)
Total deferred	(46)	(471)	(1,110)
Total provision for income taxes	1,615	3,371	1,757

Included in the provision for income taxes is a current tax charge of £1,163,000 (1998: £126,000, 1997: £nil) and a deferred tax credit of £880,000 (1998 and 1997: £nil) in relation to employee stock options. Such benefits are reflected as additional paid-in capital.

The taxation charge for the year has been reduced by £4,359,000 following a payment of £14,410,500 to the QUEST detailed in footnote 1.

Total income tax expense differs from the amounts computed by applying the UK statutory income tax rate of 30% for 1999, 31% for 1998 and 32% for 1997 to income before income tax as a result of the following:

	Year ended December 31,			
	1997	1997 1998		
UK statutory rate 30% (1998: 31%, 1997: 32%)	£1,448	£2,921	£5,442	
Permanent differences arising on payment to QUEST	_	_	(4,359)	
Permanent differences – other*	86	300	551	
Differences in statutory rates of foreign countries	76	154	144	
Other, net	5	(4)	(21)	
	1,615	3,371	1,757	

^{*} Permanent differences comprise permanent adjustments, non-deductible stock option compensation and tax sparing.

Significant components of the deferred tax assets are as follows:

		Year ended December 31,		
	1997	1998	1999	
		(in thousands))	
Fixed asset temporary differences	£259	£307	£924	
Non-deductible accruals and reserves	_	423	(46)	
Losses carried forward	_	_	880	
	259	730	1,758	

No valuation allowances have been recognized in any period.

UK income taxes have not been provided at December 31, 1999 on unremitted earnings of approximately £2,700,000 of subsidiaries located outside the United Kingdom as such earnings are considered to be permanently invested. If these earnings were to be remitted without offsetting tax credits in the United Kingdom withholding taxes would be approximately £155,000.

4/Earnings per share.

Under the strict rules of SFAS 128, "Earnings per share", the Company's convertible preference shares in 1998 had to be omitted from the calculation of diluted earnings per share for 1998 as the related dividend, which was a one-off dividend payable on the Company's initial public offering, had an antidilutive effect on diluted earnings per share. The preference dividend also reduced the income available to common shareholders for the calculation of basic earnings per share. The number of preference shares deemed to have had an antidilutive effect were 34,797,000 (after adjusting for the subdivision of shares in 1999), representing potential common shares prior to conversion. The diluted earnings per share calculated including these shares as potential common shares and based on net income before the preference dividend was 3.1 pence per share, after adjusting for the subdivision of shares in 1999.

	For the year ended December 31, 1997			
	Income	Shares *	Per share Amount	
Net income	£2,911,000			
Basic EPS				
Income available to common stockholders	2,911,000	14,281,472	20.4p	
Effect of dilutive securities				
Convertible preference shares		128,700,000		
Stock options		20,762,996		
Diluted EPS				
Income available to common stockholders plus assumed conversion	2,911,000	163,744,468	1.8p	

	For the year ended December 31, 1998		
	Income	Shares *	Per share Amount
Net income	£6,052,000		
Convertible preference dividend	(2,959,014)		
Basic EPS			
Income available to common stockholders	3,092,986	144,305,148	2.1p
Effect of dilutive securities			
Stock options		14,687,332	
Diluted EPS excluding preference dividend and preference shares prior to conversion	3,092,986	158,992,480	1.9p

	For the	For the year ended December 31, 1999		
	Income	Shares *	Per share Amount	
Net income	£16,232,000			
Basic EPS				
Income available to common stockholders	16,232,000	189,064,433	8.6p	
Effect of dilutive securities				
Stock options		14,812,598		
Diluted EPS				
Income available to common stockholders plus assumed conversion	16,232,000	203,877,031	8.0p	

^{*} The number of shares and the per share amount have been adjusted to reflect the 4 for 1 sub-division which took place in April 1999.

5/Business risks and credit concentration.

The group operates in the intensely competitive semiconductor industry which has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns and heightened foreign and domestic competition. Significant technological changes in the industry could affect operating results.

Financial instruments that potentially subject the group to concentrations of credit risk comprise principally cash and cash equivalents and accounts receivable. The group generally does not require collateral on accounts receivable, as the majority of the group's customers are large, well established companies. The group has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

The group markets and sells to a relatively small number of customers with significantly large value transactions. For further information see footnote 11. At December 31, 1999 two customers accounted for 13.8% and 13.2% of accounts receivable respectively. At December 31, 1998 four customers accounted for 31.8%, 16.4%, 12.0% and 10% of accounts receivable respectively.

As of December 31, 1998 and 1999 the group's cash and cash equivalents were deposited with major clearing banks in the UK in the form of money market deposits for varying periods of up to three months.

6/Investments.

Equity affiliate. ARM Limited owns 45.4% of the share capital of Palmchip Corporation. The value of the investment at December 31, 1999 is represented by the group's share of the net assets of Palmchip Corporation of £91,000 (1998: £88,000) and goodwill of £nil (1998: £42,000).

Acquisitions. The group purchased all of the issued share capital of Micrologic Solutions Limited for total cash consideration of £1,265,000 and associated costs of £127,000 on October 28, 1999. Goodwill of £1,127,000 arose on the acquisition.

Following a detailed review of the Company's balance sheet and its accounting policies it was considered that no fair value adjustments were necessary. The significant assets and liabilities of Micrologic Solutions Limited as at October 28, 1999 were as follows:

	Book value (in thousands)
Tangible fixed assets	£35
Debtors	363
Creditors	(264)
Taxation	(9)
Cash	140
Net assets	265

The assets and trade were transferred to ARM Limited on October 28, 1999 following the acquisition. The combination has been accounted for using the purchase method.

The unaudited proforma amounts below reflect the results of the operations of the Company and the acquired business as if the acquisition had occurred at the beginning of the 1998 financial year:

	Dec	tember 31,
	1998	1999
	(in t	thousands)
Revenues	£43,548	£63,561
Net income	5,996	16,313
Earnings per common share – basic	2.1p	8.6p
Earnings per common share – assuming dilution	1.9p	8.0p

The unaudited proforma results do not purport to be indicative of results that would have occurred had the acquisition been in effect for the periods presented, nor do they purport to be indicative of results that will be achieved in the future.

7/Property and equipment.

December 31,	
1998	1999
(in th	housands)
£—	£190
_	1,436
1,011	1,866
5,213	6,064
6,800	9,060
1,636	1,959
14,660	20,575
(6,757)	(11,295
7,903	9,280
	1998 (in the second sec

Depreciation charged to income for the years ended December 31, 1997, 1998 and 1999 was £1,764,000, £3,083,000 and £4,581,000 respectively.

8/Intangible fixed assets.

	December 31, 1999
	(in thousands)
Goodwill Less: amortization	£1,127 (94)
Less: amortization	(94)
Goodwill, net	1,033

Goodwill arose on the purchase of Micrologic Solutions Limited by ARM Limited for cash consideration of £1,265,000 and associated costs of £127,000. £1,127,000 of goodwill arose, being the difference between the fair value of the consideration and the fair value of the assets acquired, on consolidation. This is being amortized on a straight line basis over a period of two years. The amortization period has been determined with reference to typical employee turnover rates in the industry.

9/Shareholders' equity.

Share capital. There was a sub-division of shares in April 1999. Shareholders received 4 shares with a nominal value of 0.25p per share for every 1 share held with a nominal value of 1p.

On November 5, 1999 a QUEST was formed which purchased 780,000 ordinary shares of 0.25p each which were newly issued by the Company. These are for the purpose of satisfying the exercise of share options relating to the employee Save As You Earn scheme.

During the year 2,336,289 shares were issued following the exercise of the same number of options.

Share options. The board is authorized to issue options to acquire ordinary shares in the Company up to a maximum of 10% of the issued ordinary share capital in any 5 year period. Options issued prior to the listing of the Company are excluded from this calculation.

Under the UK Inland Revenue Approved Incentive Share Option Plan (the "Approved Scheme"), the Company may grant options to directors and employees meeting certain eligibility requirements. Options under the Approved Plan are exercisable between three and ten years after their issue, after which time the options expire.

Under the Company's Executive Scheme, for which it has not sought approval from the UK Inland Revenue, options are exercisable three to seven years after their issue, after which time the options expire. The Company also operates the US ISO Share Option Plan (the "Option Plan") which is substantially the same as the Executive Scheme, the main difference being that the vesting periods are different.

In 1998, the Company set up two savings related share option schemes for all employees and executive directors of the group. The number of options granted is related to the value of savings made by the employee. The period of savings is three or five years except for employees of ARM, INC. where the period is two years. The option price is currently set at 85% of the market share price prior to the grant and the right to exercise normally only arises for a six-month period once the savings have been completed except for ARM, INC. where the right to exercise normally only arises for a three-month period once the savings have been completed. During 1999 the Company set up two further savings related option schemes for all employees and executive directors of the group, which have the same characteristics as those schemes set up in 1998.

Option activity is summarized as follows:

	Outstand	Outstanding options	
	No. of shares	Weighted average exercise price	
Balances, December 31, 1996	27,026,800	£0.03	
Granted in year	7,436,060	£0.15	
Lapsed in year	(320,000)	£0.13	
Exercised in year	(14,776,000)	£0.01	
Balances, December 31, 1997	19,366,860	£0.09	
Granted in year	2,469,896	£1.16	
Lapsed in year	(225,400)	£0.32	
Exercised in year	(6,363,800)	£0.04	
Balances, December 31, 1998	15,247,556	£0.28	
Granted in year	3,477,585	£6.33	
Lapsed in year	(226,009)	£1.86	
Exercised in year	(2,336,289)	£0.13	
Balances, December 31, 1999	16,162,843	£1.59	

9/Shareholders' equity/continued.

The weighted average grant-date fair value of options granted during the year was equal to the weighted average exercise price of those options. The weighted average exercise price of options exercisable at December 31, 1999 was £0.09 (December 31, 1998: £0.08).

The following options over ordinary shares were in existence at December 31, 1999.

Number of ordinary shares	Exercise price per share	Remaining contractual life	Exercise period	Exercisable at December 31, 1999
492,000	£0.0225	3.1 years	1996 – 2003	492,000
682,000	£0.0475	4.1 years	1997 – 2004	682,000
820,000	£0.0875	5.1 years	1998 – 2005	820,000
1,502,000	£0.10	6.5 years	1999 – 2006	1,502,000
348,000	£0.10	3.5 years	1999 – 2003	348,000
3,246,060	£0.13		2000 – 2007	-
250,008	£0.13	2.2 years	1998 – 2002	24,508
2,322,000	£0.13		2000 – 2004	,,,,,
30,000	£0.13	2.3 years	1998 – 2002	_
100,000	£0.13		2000 – 2004	_
6,000	£0.2125	2.4 years	1998 – 2002	_
124,000	£0.2125		2000 – 2004	_
13,201	£0.3125	2.5 years	1998 – 2002	1,201
76,000	£0.3125		2000 – 2004	-
38,005	£0.3125	2.8 years	1998 – 2002	2,005
312,000	£0.3125	2.0 years	2000 – 2004	2,000
9,000	£0.3125	3.0 years	1998 – 2002	3,000
140,000	£0.3125		2000 – 2004	-
336,000	£0.5625	_	2001 – 2008	_
322,033	£0.5625	3.2 years	1999 – 2003	10,033
61,802	£1.9375	3.4 years	1999 – 2003	12,602
81,800	£1.9375	5.4 years	2001 – 2005	12,002
83,200	£2.6375	_	2001 – 2008	_
43,760	£2.6375	3.6 years	1999 – 2003	7,010
42,200	£2.025	3.0 years	2001 – 2008	7,010
15,502	£2.025	3.8 years	1999 – 2003	1,252
835,204	£6.12	3.0 years	2002 – 2009	1,232
870,000	£6.12	_	2002 - 2007	_
1,469,196	£6.12		2002 – 2004	_
43,200	£6.69	_	2002 - 2009	_
11,000	£6.69		2002 - 2007	_
15,498	£8.825	_	2002 – 2009	_
18,000	£8.825	_	2002 - 2007	_
5,202	£8.825	_	2002 – 2006	_
21,530	£21.30	_	2002 – 2009	_
23,520	£21.30	_	2002 - 2004	_
191,043 *	£1.2225	_	2002 – 2000	_
223,184 *	£1.2225	_	2000 – 2000	_
812,660 *	£1.2225	_	2003 – 2003	-
75,761 ***	£5,495	_	2001 – 2001	-
22,111 **	£5.495	_	2002 – 2002 2001 – 2001	-
29,163 ***	£5.495	_	2004 – 2004	-
16,162,843				3,905,611

^{*} These relate to options granted on April 17, 1998 under the Company's savings related share option schemes.

All option information presented above has been restated to reflect the 4 for 1 share sub-division in April 1999.



^{**} These relate to options granted on May 19, 1999 under the Company's savings related share option schemes.

^{***} These relate to options granted on June 10, 1999 under the Company's savings related share option schemes.

9/Shareholders' equity/continued.

At December 31, 1999, the Company had three share option plans and four savings related share option schemes. The Company applies APB Opinion Number 25 and related interpretations in accounting for its plans. Non-cash compensation relating to stock options granted in the year ended December 31, 1997 and in March 1998 at an exercise price below the fair value of the underlying stock on the grant date was recognized in an amount of £736,000 in the year ended December 31, 1999 (1998: £723,000; 1997: £nil). Such cost has been allocated according to the functional areas of the relevant employees as research and development expense in an amount of £284,000 (1998: £280,000), sales and marketing expense in an amount of £268,000 (1998: £262,000) and general and administrative expenses in an amount of £184,000 (1998: £181,000). No further compensation cost is expected in the year ending December 31, 2000.

Had compensation cost for the Company's share option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS Number 123, the group's net income and earnings per share would have been changed to the pro forma amounts indicated below:

		Year ended December 31,		
	1997	1998	1999	
		(in thousands)		
Net income				
As reported	£2,911	£6,052	£16,232	
Pro forma	£2,755	£6,132	£13,657	
Basic earnings per common share				
As reported	20.4p	2.1p	8.6p	
Pro forma	19.3p	2.2p	7.2p	
Diluted earnings per common share				
As reported	1.8p	1.9p	8.0p	
Pro forma	1.7p	2.0p	6.7p	

The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997; risk free interest rate of 4.85% (1998: 6.1%; 1997: 6.9%); expected life of 4 years; 80% (1998: 60%; 1997: 65%) volatility; and no dividends.

The earnings per share disclosures noted above have been restated to reflect the 4 for 1 share subdivision in April 1999.

10/Commitments.

The group leases its office facilities and certain equipment under non-cancellable operating lease agreements which expire at various dates through 2015. Future minimum lease commitments at December 31, 1999 are as follows:

Years ending December 31,	Operating reases (in thousands)
2000	£2,031
2001	1,983
2002	2,062
2003	1,778
2004	1,749
Thereafter	9,133
Total minimum lease payments	18,736

Rental expense under operating leases totalled £353,000, £433,000 and £1,291,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

ARM/Notes to the Consolidated Financial Statements/US Format.

11/Geographic and segment information.

The group operates in, and is managed as, a single segment.

The following analysis is of revenues by geographical segment and origin and long-lived assets by group companies in each territory:

		Year ended December 31,	
	1997	1998	1999
	(in thousands)		
Revenues (by market destination)			
Europe	£3,823	£6,713	£8,169
United States	17,423	22,442	33,091
Japan	3,148	12,295	16,898
South Korea	2,186	818	3,962
Total revenues	26,580	42,268	62,120

The group's exports from the United Kingdom were £24,813,000, £39,274,000 and £57,610,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

	Year ended December 31,		
	1997	1998	1999
		(in thousands)	
Revenues (by origin)			
United Kingdom	£25,050	£40,014	£58,210
United States	1,187	1,502	2,340
Asia Pacific	343	752	1,570
Total revenues	26,580	42,268	62,120
Long-lived assets			
United Kingdom	4,262	7,275	8,574
United States	521	625	1,730
Asia Pacific	57	133	100
Total long-lived assets	4,840	8,033	10,404

In 1997, 1998 and 1999 no single customer accounted for more than 10% of total revenues.

12/Fair values of financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and cash equivalents and accounts receivable. The carrying amount approximates fair value because of the short maturity of those instruments.

Foreign currency forward contracts. The fair value of foreign currency forward contracts is estimated using the settlement rates prevailing at the period end.

The estimated fair values of the group's financial instruments are as follows:

			Year ended	December 31,		
	1997		19	998	19	999
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
			(in the	usands)		
Cash and cash equivalents	£7,405	£7,405	£39,591	£39,591	£51,804	£51,804
Accounts receivable	6,307	6,307	8,905	8,905	13,700	13,700
Foreign currency contracts	_	28	_	23	_	2

ARM/Report of Independent Accountants/US Format.

To the board of directors and shareholders of ARM Holdings plc. In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flow present fairly, in all material respects, the financial position of ARM Holdings plc and its subsidiaries at December 31, 1999 and 1998 and the results of their operations and their cash flow for the years ended December 31, 1999, 1998 and 1997 in conformity with generally accepted accounting principles in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards in the United Kingdom which are substantially similar to those followed in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion expressed above.

PricewaterhouseCoopers. Chartered Accountants Cambridge, England

Pinewate house Coopers

February 14, 2000

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