

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

	Quarter ended 30 June 2004 Unaudited £'000	Quarter ended 30 June 2003 Unaudited £'000	Six months ended 30 June 2004 Unaudited £'000	Six months ended 30 June 2003 Unaudited £'000	Six months ended 30 June 2004 ⁽¹⁾ Unaudited \$'000
Revenues					
Product revenues	33,296	27,655	64,678	55,019	117,326
Service revenues	3,644	3,720	7,250	7,371	13,152
Total revenues	36,940	31,375	71,928	62,390	130,478
Cost of revenues					
Product costs	(1,261)	(1,253)	(2,639)	(2,825)	(4,787)
Service costs	(1,266)	(1,264)	(2,588)	(2,502)	(4,695)
Total cost of revenues	(2,527)	(2,517)	(5,227)	(5,327)	(9,482)
Gross profit	34,413	28,858	66,701	57,063	120,996
Research and development	(12,356)	(12,119)	(24,455)	(24,024)	(44,361)
Sales and marketing	(5,883)	(5,670)	(11,587)	(11,029)	(21,019)
General and administration	(7,396)	(5,685)	(13,970)	(11,535)	(25,342)
Total operating expenses	(25,635)	(23,474)	(50,012)	(46,588)	(90,722)
Income from operations	8,778	5,384	16,689	10,475	30,274
Interest	1,638	1,171	3,142	2,234	5,700
Minority interest	-	(3)	-	(105)	-
Income before income tax	10,416	6,552	19,831	12,604	35,974
Provision for income taxes	(3,114)	(2,228)	(5,896)	(3,981)	(10,696)
Net income	7,302	4,324	13,935	8,623	25,278
Cash dividend on ordinary shares at 0.6 pence per share	-	-	(6,118)	-	(11,098)
Balance of current earnings retained and used in the business	7,302	4,324	7,817	8,623	14,180
Net income	7,302	4,324	13,935	8,623	25,278
Other comprehensive income					
Foreign currency adjustments	127	(221)	(122)	(278)	(221)
Unrealized holding gain on available-for-sale securities, net of tax	1,294	938	1,647	938	2,987
Total comprehensive income	8,723	5,041	15,460	9,283	28,044
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,043,053	1,029,028	1,042,691	1,024,531	
Earnings per share – pence	0.7	0.4	1.3	0.8	
Earnings per ADS (assuming dilution)					
ADS's outstanding ('000)	347,684	343,009	347,564	341,510	
Earnings per ADS – cents	3.8	2.1	7.3	4.2	

(1) US dollar amounts have been translated from sterling at the 30 June 2004 closing rate of \$1.814=£1 (see note 1)

ARM Holdings plc
Consolidated balance sheet-US GAAP

	30 June 2004 Unaudited £'000	31 December 2003 Audited £'000	30 June 2004 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	100,256	130,722	181,864
Short-term investments	66,041	29,064	119,799
Accounts receivable, net of allowance of £1,042,000 in 2004 and £1,115,000 in 2003	25,251	17,320	45,805
Inventory: finished goods	1,025	931	1,859
Prepaid expenses and other assets	9,978	8,924	18,100
Total current assets	202,551	186,961	367,427
Deferred income taxes	3,100	3,139	5,623
Property and equipment, net	12,678	16,583	22,998
Intangible assets	8,878	10,068	16,105
Investments	8,543	6,246	15,497
Total assets	235,750	222,997	427,650
Liabilities and shareholders' equity			
Accounts payable	2,813	2,691	5,103
Income taxes payable	6,252	3,140	11,341
Personnel taxes	1,028	1,047	1,865
Accrued liabilities	13,752	16,912	24,946
Deferred revenue	12,632	11,132	22,914
Total liabilities	36,477	34,922	66,169
Shareholders' equity			
Ordinary shares	513	512	930
Additional paid in capital	64,412	63,321	116,843
Deferred compensation	(1,751)	(2,499)	(3,176)
Treasury stock, at cost	(7,553)	(7,569)	(13,701)
Retained earnings	142,236	134,419	258,016
Other comprehensive income:			
Unrealized holding gain on available-for-sale securities, net of tax	3,626	1,979	6,578
Cumulative translation adjustment	(2,210)	(2,088)	(4,009)
Total shareholders' equity	199,273	188,075	361,481
Total liabilities and shareholders' equity	235,750	222,997	427,650

(1) US dollar amounts have been translated from sterling at the 30 June 2004 closing rate of \$1.814=£1 (see note 1)

ARM Holdings plc
Results for the Six Months Ended 30 June 2004 – UK GAAP

Consolidated profit and loss account

	Six months ended 30 June 2004 Unaudited £'000	Year ended 31 December 2003 Audited £'000	Six months ended 30 June 2003 Unaudited £'000
Turnover	71,928	128,070	62,390
Cost of sales	(5,227)	(11,022)	(5,327)
Gross profit	66,701	117,048	57,063
Operating expenses			
Research and development	(24,455)	(48,131)	(24,604)
Sales and marketing	(11,553)	(23,007)	(11,040)
Administrative expenses	(13,341)	(27,471)	(10,383)
Total operating expenses	(49,349)	(98,609)	(46,027)
Operating profit	17,352	18,439	11,036
Interest receivable, net	3,142	4,801	2,234
Profit on ordinary activities before taxation	20,494	23,240	13,270
Tax on profit on ordinary activities	(5,731)	(7,977)	(3,981)
Profit on ordinary activities after taxation	14,763	15,263	9,289
Minority interest	-	(105)	(105)
Profit for the period	14,763	15,158	9,184
Dividends proposed	(2,884)	(6,106)	-
Retained profit for the period	11,879	9,052	9,184
Basic earnings per share (pence)	1.4	1.5	0.9
Fully diluted earnings per share (pence)	1.4	1.5	0.9

Consolidated balance sheet

	30 June 2004 Unaudited £'000	31 December 2003 Audited £'000	30 June 2003 Unaudited £'000 ⁽³⁾
Intangible fixed assets	6,139	7,547	9,587
Tangible fixed assets	12,678	16,583	20,397
Other investments	5,263	4,759	3,608
	24,080	28,889	33,592
Stocks	1,025	931	994
Debtors	39,313	29,829	34,283
Short-term investments	151,095	129,663	135,775
Cash at bank and in hand	15,202	30,123	5,212
Creditors: amounts falling due within 1 year	(37,079)	(38,937)	(28,446)
Net current assets	169,556	151,609	147,818
Total assets less current liabilities	193,636	180,498	181,410
Provisions for liabilities and charges	(29)	(63)	(27)
Net assets	193,607	180,435	181,383
Equity shareholders' funds	193,607	180,435	181,383

Consolidated cash flow statement	Six months ended 30 June 2004 Unaudited £'000	Year ended 31 December 2003 Audited £'000	Six months ended 30 June 2003 Unaudited £'000
Net cash inflow from operating activities	14,889	43,740	18,261
Returns on investments and servicing of finance	3,155	4,930	2,404
Taxation	(4,739)	(9,925)	(4,935)
Capital expenditure and financial investment	(1,789)	(4,821)	(1,917)
Acquisitions	-	(3,390)	(3,023)
Equity dividends paid	(6,118)	-	-
Management of liquid resources	(21,432)	(3,650)	(9,762)
Financing	1,192	255	153
(Decrease) increase in cash	(14,842)	27,139	1,181

Notes to the UK GAAP Financial Statements

(1) Basis of preparation – reporting currency

The Group prepares and reports its financial statements in UK sterling. Purely for the convenience of the reader, the US GAAP income statement and balance sheet have been translated from sterling at the closing rate on 30 June 2004 of \$1.814=£1. Such translations should not be construed as representations that the sterling amounts represent, or have been or could be so converted into US dollars at that or at any other rate.

(2) Summary of significant differences between UK Generally Accepted Accounting Principles (“UK GAAP”) and United States Generally Accepted Accounting Principles (“US GAAP”)

The principal differences between 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.

Goodwill Under UK GAAP, goodwill is amortised on a straight-line basis over an estimate of the time that the Group is expected to benefit from it. This was also the Group’s accounting policy under US GAAP prior to 1 January 2002, on which date, following the provisions of SFAS 142 (‘Goodwill and other Intangible Assets’), the carrying value of goodwill was frozen and became subject to annual impairment reviews. No write-offs of goodwill arose as a result of the Group’s impairment reviews.

Amortisation of intangibles Under UK GAAP, intangible assets purchased as part of a business combination are included within the goodwill balance unless the asset can be identified and sold separately without disposing of the business as a whole. Under US GAAP, such intangible assets may meet the criteria set out in SFAS 142 for categorization as intangible assets other than goodwill and are amortised over their useful economic lives. Under US GAAP, payments made to purchase intangible assets that are still in development are charged directly to the profit and loss account. Thus differences arise in the amounts of goodwill recognized and the associated amortisation charge.

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

Long Term Incentive Plan (“LTIP”) Under UK GAAP, the fair value of the shares awarded under the LTIP is charged to compensation cost over the period in respect of which performance conditions apply. To the extent the award is adjusted by virtue of performance conditions being met or not met, the compensation cost is adjusted in line with this. Under US GAAP, the Group follows variable plan accounting for these grants, measuring compensation expense as the difference between the exercise price and the fair market value of the shares at each period end over the vesting period of the options. Increases in fair market value of the shares result in a charge and decreases in fair market value of the shares result in a credit, subject to the cumulative amount previously expensed.

Save As You Earn (“SAYE”) plans Under UK GAAP, the Group has taken advantage of the exemption provided by UITF 17 (‘Employee Share Schemes’) not to recognise any compensation charge in respect of options granted under SAYE plans. Under US GAAP, the Group follows the requirements of EITF 00-23, which does not permit such an exemption in respect of plans where the savings period is in excess of 27 months, as is the case with the Group’s Inland Revenue approved UK SAYE plans. EITF 00-23 applies only to new offers made since 24 January 2002. The compensation charge made under US

GAAP is calculated as the difference between the market price of the shares at the date of grant and the exercise price of the option and is recorded on a straight-line basis over the savings period. In addition, certain options attract a charge under variable plan accounting under US GAAP.

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

Tax on UK and 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 certain employee share options, which have been exercised during the year. Similarly, in the UK, the Group is entitled to a tax deduction for the profit made by employees on certain options that have been exercised during the year. In both cases, the amount is equivalent to the difference between the option exercise price and the fair market value of the shares on 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 whilst under US GAAP, the tax benefit is recorded as an increase in shareholders' funds.

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

Cash Under UK GAAP, cash does not include short-term deposits and investments which cannot be withdrawn without notice and without incurring a penalty. Such items are shown as 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. Deposits with a maturity at inception of between three months and one year are shown as short-term investments.

Dividends payable Under UK GAAP, dividends declared after the period end are recorded in the period to which they relate. Under US GAAP, they are recorded in the period in which they are declared.

(3) Own shares held

The Group adopted UITF 38, "Accounting for ESOP Trusts", during the second half of 2003 and as a result has restated its 30 June 2003 UK GAAP balance sheet. There is no effect on the 30 June 2003 half-year profit. As a result of the change in accounting policy, the cost of own shares held is presented as a deduction in arriving at shareholders' funds where previously they were included within investments and were stated at the lower of cost and amounts receivable from the exercise of options, where applicable, and market value. The effect on the 30 June 2003 balance sheet is to decrease shareholders' funds and investments by £1,977,000. The new policy was applied to the 31 December 2003 balance sheet within the 2003 annual report and thus no restatement is required.

UK/US GAAP Reconciliations – profit and loss account

	Six months ended 30 June 2004 Unaudited £'000	Six months ended 30 June 2003 Unaudited £'000
Profit for the financial period as reported under UK GAAP	14,763	9,184
Employer's taxes on share options	(34)	11
Compensation charge in respect of SAYE options	(184)	44
Compensation charge in respect of LTIP	(92)	-
Write-back of goodwill	268	666
Amortisation of intangibles	(50)	-
Embedded derivatives	(179)	(344)
Tax on UK and US share options	(165)	-
Impairment of marketable security	(392)	(938)
Net income as reported under US GAAP	13,935	8,623

UK/US GAAP Reconciliations - balance sheet

	30 June 2004 Unaudited £'000	31 December 2003 Audited £'000
Shareholders' funds as reported under UK GAAP	193,607	180,435
Employer's taxes on share options	29	63

Cumulative difference on amortisation of goodwill	2,981	2,713
Cumulative difference on amortisation of intangibles	(242)	(192)
Embedded derivatives	(2,270)	(2,091)
Unrealised gain on marketable securities	2,296	1,041
Dividends payable	2,872	6,106
Shareholders' equity as reported under US GAAP	199,273	188,075
Cash as reported under UK GAAP	15,202	30,123
Adjustment for short-term investments treated as cash equivalents under US GAAP	85,054	100,599
Cash and cash equivalents as reported under US GAAP	100,256	130,722
Short-term investments as reported under UK GAAP	151,095	129,663
Adjustment for short-term investments treated as cash equivalents under US GAAP	(85,054)	(100,599)
Short-term investments as reported under US GAAP	66,041	29,064

The financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 240 (3) of the Companies Act 1985. Statutory accounts of the Company in respect of the financial year ended 31 December 2003 have been delivered to the Registrar of Companies, upon which the Company's auditors have given a report which was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of that Act.

About ARM

ARM designs the technology that lies at the heart of advanced digital products, from wireless, networking and consumer entertainment solutions to imaging, automotive, security and storage devices. ARM's 16/32-bit RISC microprocessors, data engines, peripherals, software and tools, combined with the company's broad Partner community, provide a total system solution that offers a fast, reliable path to market for leading electronics companies. More information on ARM is available at <http://www.arm.com>.

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This announcement contains "forward-looking statements" including statements concerning plans, future events or performance and underlying assumptions and other statements which are other than statements of historical fact. The Company's actual results for future periods may differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. The factors that could cause actual results to differ materially include, without limitation, potential for significant fluctuation in and unpredictability of results, the ability of semiconductor partners to manufacture and market microprocessors based on the ARM® architecture; the acceptance of ARM technology by systems companies; the availability of development tools, systems software and operating systems; the rapid change in technology in the industry and ARM's ability to develop new products in a timely manner; management of growth; competition from other architectures; general business and economic conditions; the growth in the semiconductor industry; the Company's ability to protect its intellectual property; and ARM's ability to attract and retain employees.

More information on ARM is available at <http://www.arm.com>