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ARM HOLDINGS PLC PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

ARM Holdings plc announces fourth quarter revenues of £32.3 million and pre-tax profit of £5.5 million

CAMBRIDGE, UK, 28 January 2003—ARM Holdings plc [(LSE: ARM); (Nasdaq: ARMHY)] announces its unaudited financial results for the fourth quarter and the twelve months ended 31 December 2002.

FINANCIAL HIGHLIGHTS (US GAAP)

Twelve months ended 31 December 2002

- Total revenues up 3% to £150.9 million (2001: £146.3 million). At constant exchange rates, total revenues up year on year by 7%. Licensing revenues up 8% to £83.0 million
- Profit before taxation at £47.4 million (2001: £50.3 million) before restructuring costs of £2 million
- Cash balance of £130.3 million at year end up from £121.7 million at end Q3 and £104.5 million at 31 December 2001
- Earnings per fully diluted share (pre restructuring costs) of 3.3 pence. Earnings per fully diluted share (post restructuring costs) of 3.1 pence (15.0 cents per ADS*) (2001: 3.3 pence and 14.5 cents respectively)

Fourth quarter ended 31 December 2002

- Total revenues at £32.3 million (Q4 2001: £40.2 million), 3% lower than Q3 2002
- Royalty revenues up 26% sequentially to £7.8 million (Q3 2002: £6.2 million) on record quarterly unit shipments of 127 million
- 13 licenses signed in the quarter. Number of semiconductor partners increases to 108
- Profit before taxation at £7.5 million (Q4 2001:£13.8 million) before restructuring costs of £2 million
- Total workforce reduced by approximately 12% to 721 at year end, giving rise to annual savings in employee costs of approximately £5 million.
- Net cash inflow from operating activities of £15.8 million in Q4. Net cash up by £8.6 million in the quarter after £2 million outflow on restructuring costs and £1.5 million investment in Superscape PLC
- Earnings per fully diluted share (pre restructuring costs) of 0.5 pence. Earnings per fully diluted share (post restructuring costs) of 0.4 pence (1.7 cents per ADS*) (Q4 2001: 0.9 pence and 3.9 cents respectively)

* Each American Depositary Share (ADS) represents three shares

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Commenting on the fourth quarter and full year results, Sir Robin Saxby, Chairman, said:
"Although, following our Q3 results, we adjusted our medium term revenue expectations and implemented cost base reduction, our competitive position in the intellectual property licensing business has strengthened and the long term prospects for ARM continue on a positive trend. It is encouraging to see that the momentum behind our business has given rise to an increase in royalty revenues in the fourth quarter."

Warren East, Chief Executive Officer, added:
"Despite the difficulties presented by tough industry conditions, our team has responded well to the operational challenges in the quarter. The ARM1136J-S™ product was successfully delivered to lead partners as planned, the reduction in the workforce was managed sensitively and efficiently and the sales team closed a number of important strategic license deals. We expect the exact timing of signing of license deals to continue to be hard to predict, and in view of this our guidance on revenues in the short term continues to be flattish. As and when the market recovers we have the opportunity to increase our R & D spend further."

Tim Score, Chief Financial Officer, said:
"ARM's Q4 results demonstrate that the company continues to be profitable and cash generative at the reduced revenue levels resulting from the slowdown in licensing activity. Efforts to improve working capital management have contributed to the increase in the cash balance to over £130 million and tight management of the cost base in 2003 will enable us to reduce the impact on profitability of lower revenues in the current market conditions."

Operating review for the twelve months ended 31 December 2002

Market conditions
The challenging economic environment and severe downturn in the semiconductor industry persisted throughout 2002. In this context, ARM reported robust results in the first half of the year. However, when the industry upturn foreseen by many commentators in the second half did not materialise, we experienced some deferment of licensing decisions by our partners and a consequent slowdown in licensing activity.

This slowdown in licensing activity caused us to realign our expectations for short to medium term revenue growth and we took the decision to adjust our cost base to be commensurate with our revised expectations. Despite the unhelpful market background we continue to invest in the future ARM technology roadmap by maintaining a high level of research and development expenditure and are therefore particularly pleased that even with a slowdown in licensing activity in the second half we remain strongly profitable and cash generative. Indeed, in the second half alone the total net cash inflow from operating activities was £30.8 million giving rise to a year end cash balance of over £130 million.

Current trading and prospects
We stated in our Q3 earnings release that the key long-term growth indicators for the company remain healthy. This view is supported by our Q4 results with a further 13 licenses signed, a meaningful sequential improvement in royalty revenues and strong cash flow generation.

However, although we have reasonable visibility of future revenues due to the strategic nature of our relationships with our partners, the licensing revenue already in the backlog and the current run rate of our non-licensing revenue streams, we anticipate that the timing of the closure of licensing deals will remain unpredictable, particularly in the short term. Moreover, the company's reported revenues are exposed to further weakening of the US dollar. Therefore, in spite of an increased contribution from royalties in Q4 of 2002, it is our expectation that total quarterly revenues will remain flattish for the foreseeable future with revenues in Q1 2003 likely to be at the lower end of the range.

As 2003 progresses, we anticipate momentum being provided inter alia by the licensing of our newer cores (ARM1136J-S and ARM1026EJ-S™), the introduction of new platform products, the introduction of a number of new development systems products and the positive momentum in royalty revenues.

License revenues
Although licensing activity slowed in the second half, important strategic deals continue to be signed. In the full year, license revenues of £83.0 million were 8% ahead of last year. By the end of 2002 we had 108 semiconductor partners (as reported in Q2 2002, two companies which had signed per-use licenses in previous years no longer have access to ARM technology) compared to 77 at the end of 2001. In total 70 licenses were signed in the year, comprising 46 multi-use licenses and 24 per-use licenses. Of the 33 new partners signed in 2002, 10 took multi-use licenses and 23 per-use licenses. In Q4 2002, we announced that LSI Logic, Qualcomm and Texas Instruments were three of the first five licensees of the ARM1136J-S. Significant licensing opportunities exist through licensing our leading-edge technology to major new partners, licensing additional products to existing partners, licensing our products on a per use basis via the Foundry Programme and by licensing non-CPU products (hardware platforms, software and peripherals) to new and existing partners. The flexibility of our licensing models ensures that the commercial needs of all our partners can be addressed. In Q4 2002, we introduced the new Approved Licensing Programme with Flextronics signed as the first approved licensee. The purpose of the Programme is to engage with a select number of partners who will be able to sub-license ARM products as part of a wider design services offering, thereby extending the reach of the ARM architecture and increasing the number of ARM® technology-based design wins.

Although ARM has licensed its technology to many of the world's leading semiconductor companies, some two-thirds of the top 150 semiconductor companies are yet to become ARM licensees. In addition to these potential new customers, many of our partners have demonstrated their confidence in the ARM technology roadmap by licensing a number of additional products, giving us confidence in future license revenue momentum. In 2001, some 80% of license revenues were earned from existing partners. This proportion increased to 89% in 2002. As the ARM partner base broadens and the number of products available to be licensed extends, our ability to sign "upgrade" and "derivative" licenses also increases.

Foundry Programme
The Foundry Programme, introduced in 2000 to make ARM technology available to small "fabless" companies, has continued to expand in 2002. We have entered into arrangements with a further 4 foundries during the year bringing the total to 7. In addition, 23 more companies have licensed technology through the Foundry Programme in 2002 bringing the total number of per use licensees to 46. Our first per use licensee began shipping in the quarter to 31 March 2002. By the end of the year the number of shippers had increased to six. To date, only four of the 19 cores available for multi-use licensing have been introduced into the Foundry Programme. When the Programme was originally established, we envisaged that some per-use licensees would upgrade to multi-use licenses. To date, four per-use licensees have upgraded to multi-use licenses.

Given the pricing model used in the Foundry Programme (typically, lower up-front license fees and higher per unit royalties) and our success in attracting a large number of partners to the Programme, the impact on our total licensing revenues is to reduce the average price per license but to increase the number of licenses sold and increase total revenue overall. The Programme not only represents incremental licensing revenue to the business but also ensures that a much greater number of semiconductor companies can have access to ARM technology. The success of the Foundry Programme has not impacted our pricing of multi-use licenses.

Non-CPU licensing
Alongside our CPU core licensing business, the licensing of non-CPU technology comprising platforms, peripherals, models and application software grew to £12.6 million, representing 15% of total license revenues in 2002 compared to £11.9 million or 15% of total license revenues in 2001. In 2001, we introduced the PrimeXsys™ Platform for the wireless market to enable licensees to achieve time-to-market advantage when developing their own wireless application solutions. This platform has now been licensed to 4 partners. In 2002, we announced the availability of the PrimeXsys Dual Core Platform for use primarily in networking applications.

Royalties and unit shipments
Royalty revenues earned in 2002 were £26.8 million on 456 million units shipped, compared to £27.9 million in 2001 on 420 million units shipped. Up to 30 September 2002, a total of 1.4 billion ARM core-based chips have been shipped (we receive data one quarter in arrears, so that royalty revenues in a quarter relate to units shipped by our partners in the previous quarter). Royalty revenues in the fourth quarter were £7.8 million on 127 million units shipped, up 26% from £6.2 million in the previous quarter on 124 million units shipped. Growth in royalty revenues is driven by many factors including the number of ARM partners shipping and the mix of ARM core-based chips being sold, with the newer cores typically generating higher per unit royalty payments. To date, 93% of all ARM core-based chips sold have been based on ARM7™ technology. As the mix changes to include royalties earned on more recent ARM9™, ARM10™ and ARM11™ core-based chips, we anticipate an upward trend in the average royalty earned per chip. In the longer term, the contribution from chips sold by per-use licensees will also positively impact the average royalty rate, reflecting the different business model deployed in the Foundry Programme.

The broad reach of ARM technology is demonstrated by the fact that royalty revenues are now being earned from products being shipped in all target end markets. The wireless market (in which we include personal organizers) remained the largest end market using ARM technology in 2002, accounting for approximately 64% of royalty revenues (or 11% of total revenues).

Development Systems
After a very strong start to the year, sales of development systems have slowed latterly with full year sales of £23.1 million being marginally down on the £23.3 million reported in 2001. However, it is encouraging that sales of the ARM Development Suite™, a leading indicator of the amount of ARM core-based development activity taking place, were up year on year. We recently introduced our new RealView™ tools which we expect will provide positive impetus in 2003. These new products include the Integrator™/CP Development Platform, the Multi-ICE®

JTAG Emulator for Windows CE, the Realview™ Developer Kit for Intel XScale technology and the Realview Multi-Core Debugger. We continue to build our sales capability via third party distribution channels, accounting for approximately 30% of total development systems sales in 2002. Development systems sales continue to reflect the global reach of the ARM architecture with revenues being split approximately 29% in the US, 40% in East Asia and 31% in Europe.

Product development

We continue to invest in research and development in order to ensure that the ARM technology roadmap provides competitive advantage to our partners, regardless of the end markets which they are targeting. Research and development expenditure of £47.3 million in 2002 is up by 28% over 2001 and represents 31% of 2002 sales. Despite reducing our headcount in Q4, investment in the development of innovative technology remains a priority. Consistent with previous announcements, we made the first deliveries of the ARM1136J-S product, the first core from our ARMv6 microarchitecture, to lead partners in the fourth quarter of this year. 2002 also saw the announcement of the latest ARM10 family core, the ARM1026EJ-S highlighting the 64 bit features of the product. Further developments have taken place on our PrimeXsys family of platforms, with the announcement of the new ARM11 PrimeXsys Platform and the launch of our Dual Core Platform for networking applications, our MOVE™ technology for multimedia applications and our SecurCore™ SC200™ family. Other significant development activity has taken place with our 3D graphics collaborative projects – the MBX 3D graphics accelerator and the Swerve 3D graphics software engine.

In Q4, ARM announced a strategic collaboration with National Semiconductor to develop and market new energy efficient technology including dynamic voltage and frequency scaling for ARM Powered® systems, including next generation mobile devices.

People

Since October 2001, ARM's management team has evolved in order to position the company for the next stage of its development. In October 2001, the roles of Chairman and Chief Executive were split with Warren East being appointed as Chief Executive Officer and Sir Robin Saxby remaining as Chairman. At the same time, two of ARM's founders, Tudor Brown and Mike Muller were appointed to the plc Board as Chief Operating Officer and Chief Technology Officer respectively. In March 2002 Tim Score replaced Jonathan Brooks as Chief Financial Officer and in August 2002 Mike Inglis was appointed to the plc Board as Executive Vice President (EVP) Marketing. The operational board of the company has also been strengthened by the appointment of Colm MacKernan as General Counsel and by the promotions to the executive team of Simon Segars (EVP Engineering) and Jerry Ardizzone (EVP Worldwide Sales).

Headcount at the end of 2002 stood at 721 compared to 794 at the end of September 2002 and 722 at the end of 2001. As announced in October 2002, total headcount was reduced by some 12% in Q4 across all levels and business areas, giving rise to savings in annual employment costs of approximately £5 million. The global reach of our business is illustrated by the fact that our 721 employees operate out of 19 locations in 9 countries.

Legal action

On 28 May 2002, Nazomi Communications, Inc. filed a lawsuit against ARM before the Federal District Court for Northern California claiming that ARM's Jazelle™ technology for Java infringes a US patent owned by Nazomi. ARM is confident that its products do not infringe the patent cited in the lawsuit or any other Nazomi patents and we intend to pursue Nazomi for all legal costs incurred by ARM in defending our intellectual property in this case.

We maintain our view that this action is more straightforward than the litigation with picoTurbo Inc which was concluded in December 2001, therefore the cost and occupation of management time is expected to be significantly less and the matter could be concluded expeditiously.

The continued protection of our intellectual property remains very important to us. We now have over 230 patent families covering the scope of our activities, comprising 738 patents on file around the world, of which 245 have matured into issued patents. Moreover, we filed twice as many patent applications in 2002 as we filed in 2001.

Financial review

Fourth quarter ended 31 December 2002

Total revenues for the fourth quarter ended 31 December 2002 amounted to £32.3 million, representing a 3% decrease from £33.3 million in the third quarter of 2002, and a 20% decrease over fourth quarter 2001 revenues of £40.2 million.

License revenues amounted to £15.8 million representing 49% of revenues compared to £17.9 million or 54% of revenues in the third quarter of 2002 and £22.7 million or 57% of revenues for the corresponding period in 2001. We signed 13 licenses with partners during the fourth quarter of 2002: five multi-use licenses to new partners, two new per use licenses and six upgrade and derivative licenses.

Of the new multi-use partners, three were new foundries; one took a license to ARM7TDMI®, one took a license to ARM922T™ and the other took a license to both cores. Of the other new multi-use licensees, one took a license to ARM926EJ-S™ and the other took a license to our Securcore SC100™. One of the new per use licensees took a license to the ARM7TDMI and the other took a license to the ARM922T and ARM946E™. There were also two further upgrades where existing partners took licenses to a new family of cores that they had not previously licensed. Both of these took licenses to the ARM1026EJ-S. One of these was previously a per use licensee which brings the number of partners converted from per use to full licenses to four. One existing customer also took two derivatives from the ARM9 family.

Royalty revenues in the fourth quarter were £7.8 million accounting for 24% of revenues compared to £6.2 million or 19% of revenues in the third quarter of 2002 and £6.8 million or 17% of revenues for the corresponding period in 2001. Sales of development systems amounted to £4.4 million, representing 14% of total revenues compared to £5.0 million or 15% of total revenues in the third quarter of 2002 and £5.8 million or 14% of revenues in the fourth quarter of 2001. Service revenues were £4.3 million comprising consulting fees of £0.9 million and support, maintenance and training fees of £3.4 million compared to total service revenues of £4.2 million in the third quarter of 2002 and £4.9 million for the corresponding period in 2001.

Gross margins for the fourth quarter were 92%, up from 89% in the third quarter. This was due to the further concentration of resources on research and development activity rather than on services projects and lower sales of development systems resulting in lower cost of goods sold.

Research and development expenses were £11.0 million in the fourth quarter of 2002 representing 34% of revenues. This compares to £12.2 million or 37% of revenues in the third quarter of 2002. Sales and marketing costs for the fourth quarter were £5.7 million compared to £6.4 million in the third quarter of 2002. Research and development expenses and sales and marketing costs were lower in the fourth quarter due to the reduced headcount and to the release of the provision for employee bonuses. General and administration expenses were £6.8 million in the fourth quarter of 2002 compared to £4.0 million in the third quarter. The increase in the quarter was due to an increase in accrued legal expenses, the recording of unrealised future foreign exchange losses on certain committed but not yet invoiced future revenue streams in accordance with SFAS 133 and an increase in the allowance for doubtful debts. Restructuring costs of £2.0 million were charged to the profit and loss account in the fourth quarter of 2002. Operating margins were 13.3% for the quarter compared to 31.7% for the fourth quarter of 2001 and 21.0% for the third quarter of 2002.

Income before income tax for the fourth quarter of 2002 was £5.5 million or 17.2% of revenues compared to £8.0 million or 24.0% of revenues in the third quarter of 2002 and £13.8 million or 34.4% of revenues in the fourth quarter of 2001.

Fourth quarter fully diluted earnings per share prepared under US GAAP were 0.4 pence (1.7 cents per ADS) compared to 0.9 pence (3.9 cents per ADS) for the corresponding period in 2001 or 0.6 pence (2.7 cents per ADS) in the third quarter of 2002.

Cash flow
Net cash inflow from operating activities of £15.8 million was generated in the fourth quarter, measured under UK GAAP. This strong performance was achieved in part due to good management of receivables in the quarter. The net cash balance increased by £8.6 million after restructuring costs of £2 million and an investment of £1.5 million in the share capital of Superscape PLC in November 2002.

Twelve months ended 31 December 2002

Revenues
Total revenues for the twelve months ended 31 December 2002 amounted to £150.9 million, an increase of 3% from total revenues of £146.3 million in the twelve months ended 31 December 2001. The effective US dollar to sterling average exchange rate in 2002 has been 1.50 compared to 1.45 in 2001. This has had the effect of reducing total reported revenues by approximately £5.8 million.

Product revenues, which include license fees, royalties and the sale of development systems, were £132.9 million, representing 88% of total revenues in the twelve months to 31 December 2002. This compared to £128.0 million, representing 87% of revenues in the corresponding period of 2001. Royalty revenues were £26.8 million in the twelve months to 31 December 2002, compared to £27.9 million in the twelve months to 31 December 2001. The number of multi-use licensees shipping silicon chips based on the ARM architecture is now 37, with 6 single-use licensees shipping. Licensing revenues grew by 8% to £83.0 million in the twelve months to 31 December 2002 compared to £76.8 million in 2001. Sales of development systems have decreased slightly from £23.3 million for the twelve months to 31 December 2001 to £23.1 million in the twelve months to 31 December 2002.

Service revenues, which include consulting services and revenues from support, maintenance and training, were £18.0 million in the twelve months to 31 December 2002, representing 12% of total revenues compared to £18.3 million or 13% of revenues in the twelve months to 31 December 2001. Consulting revenues were £4.4 million in the twelve months to 31 December 2002 compared to £7.4 million in the same period of 2001, while revenues from support, maintenance and training grew by 24% to £13.6 million from £10.9 million.

Gross margins
Gross margin for the twelve months to 31 December 2002 was 91%, compared to 88% for the twelve months to 31 December 2001.

Operating expenses
Research and development expenses increased from £36.9 million or 25% of revenues in the twelve months to 31 December 2001 to £47.3 million or 31% of revenues in 2002. Sales and marketing costs grew from £21.5 million or 15% of revenues in the twelve months to 31 December 2001 to £24.7 million or 16% of revenues in 2002. General and administration expenses were £22.5 million or 15% of revenues in the twelve months to 31 December 2002, the same as in the twelve months to 31 December 2001. There is no goodwill amortization charge in 2002 following the introduction of SFAS 142, whereby goodwill is no longer amortized under US GAAP. Goodwill amortization of £1.9 million was charged to the profit and loss account in 2001. Restructuring costs of £2.0 million occurred in 2002.

Operating margins
Operating margins decreased from 31.5% in the twelve months to 31 December 2001 to 27.4% for 2002 when measured under US GAAP.

Interest
Interest was £4.4 million for the twelve months to 31 December 2002 compared to £4.5 million in 2001, with the benefit of higher cash balances being offset by lower interest rates in 2002.

Earnings and taxation
For the twelve months ended 31 December 2002, income before income tax under US GAAP was £45.4 million or 30.1% of revenues compared to £50.3 million or 34.4% of revenues in the twelve months ended 31 December 2001. Under UK GAAP profit before taxation was £45.5 million or 30.1% of revenues compared to £50.6 million or 34.6% of revenues in the twelve months ended 31 December 2001.

The group’s taxation rate under US GAAP decreased from 32.4% in the twelve months to 31 December 2001 to 30.3% in 2002, due partly to the availability of research and development tax credits in the UK since April 2002.

Fully diluted earnings for the year ended 31 December 2002 under US GAAP were 3.1 pence per share (15.0 cents per ADS) compared to 3.3 pence per share (14.5 cents per ADS) for the year ended 31 December 2001.

Balance sheet and cash flow
Net cash inflow from operating activities of £52.1 million was generated in the twelve months to 31 December 2002, measured under UK GAAP. Capital expenditure in the period was £15.6 million. Cash and short term investments increased by £25.8 million in the period to £130.3 million at 31 December 2002 from £104.5 million at the end of December 2001.

Accounts receivable decreased to £20.5 million at 31 December 2002 from £24.8 million at 31 December 2001. The allowance against receivables increased to £2.2 million at the end of December 2002 from £0.8 million at 31 December 2001, reflecting the increased number of smaller partners generated by the success of the Foundry Programme. Deferred revenues were £14.4 million at the end of December 2002, compared to £13.8 million at the end of Q3 and £19.4 million at 31 December 2001.

The board of directors regularly reviews the structure of the balance sheet and the free cash generation with particular reference to potential uses of the Group’s cash resources. In light of the current challenging trading conditions and the prospects for the company in the longer term, the board believes it is appropriate to retain sufficient cash to give the company the flexibility to continue to invest in product development in the event of a sustained industry downturn. The board therefore does not recommend the payment of a final dividend in respect of the twelve months ended 31 December 2002.

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ARM Holdings plc
Fourth Quarter and Full Year Results – US GAAP
(in thousands except per share data)

	Quarter Ended Dec 31 2002 Unaudited	Quarter Ended Dec 31 2001 Unaudited	Year Ended Dec 31 2002 Unaudited	Year Ended Dec 31 2001 Audited	*Year Ended Dec 31 2002 [(1)] Unaudited*
	£'000	**£'000**	**£'000**	**£'000**	***$'000***
Revenues					
Product revenues	27,965	35,295	132,911	127,976	*213,987*
Service revenues	4,347	4,922	18,011	18,298	*28,998*
Total revenues	32,312	40,217	150,922	146,274	*242,985*
Cost of revenues					
Product costs	1,265	2,306	6,464	8,209	*10,407*
Service costs	1,300	2,651	6,721	9,080	*10,821*
Total cost of revenues	2,565	4,957	13,185	17,289	*21,228*
Gross profit	29,747	35,260	137,737	128,985	*221,757*
Research and development	10,966	9,549	47,299	36,941	*76,151*
Sales and marketing	5,668	5,655	24,711	21,457	*39,785*
General and administration	6,842	6,876	22,486	22,521	*36,202*
Restructuring costs	1,960	-	1,960	-	*3,156*
Amortization of goodwill	-	425	-	1,929	-
Total operating expenses	25,436	22,505	96,456	82,848	*155,294*
Income from operations	4,311	12,755	41,281	46,137	*66,463*
Interest	1,293	1,194	4,373	4,470	*7,040*
Minority interest	(55)	(105)	(232)	(303)	*(374)*
Income before income tax	5,549	13,844	45,422	50,304	*73,129*
Provision for income taxes	1,946	4,630	13,785	16,302	*22,194*
Net income	3,603	9,214	31,637	34,002	*50,935*
Net income	3,603	9,214	31,637	34,002	*50,935*
Other comprehensive income					
Foreign currency adjustments	(242)	138	(807)	14	*(1,299)*
Accumulated other comprehensive income	-	-	-	(2,087)	
Total comprehensive income	3,361	9,352	30,830	31,929	*49,636*
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,018,043	1,025,480	1,020,760	1,024,633	
Earnings per share – pence	0.4	0.9	3.1	3.3	
Earnings per ADS (assuming dilution)					
ADS's outstanding ('000)	339,348	341,827	340,253	341,544	
Earnings per ADS – cents	1.7	3.9	15.0	14.5	

(1) Translated solely for the convenience of the reader at December 31, 2002 closing rate of $1.6100=£1

ARM Holdings plc
Consolidated Balance Sheet-US GAAP

	Dec 31 2002 Unaudited £'000	Dec 31 2001 Audited £'000	*Dec 31 2002 [(1)] Unaudited $'000*
Assets			
Current assets:			
Cash and cash equivalents	130,304	104,467	*209,789*
Accounts receivable, net of allowance of £2,193,000 in 2002 and £800,000 in 2001	20,516	24,809	*33,031*
Inventory	1,515	581	*2,439*
Prepaid expenses and other assets	11,345	6,006	*18,266*
Income taxes receivable	-	550	*-*
Total current assets	163,680	136,413	*263,525*
Deferred income taxes	1,697	839	*2,732*
Property and equipment, net	25,721	22,668	*41,411*
Intangible assets	10,417	12,339	*16,771*
Investments	4,229	3,555	*6,809*
Total assets	205,744	175,814	*331,248*
Liabilities and shareholders' equity			
Accounts payable	4,730	2,361	*7,615*
Income taxes payable	3,828	7,054	*6,163*
Personnel taxes	824	784	*1,327*
Accrued liabilities	8,636	9,741	*13,904*
Deferred revenue	14,415	19,420	*23,208*
Total liabilities	32,433	39,360	*52,217*
Minority interest	841	609	*1,354*
	33,274	39,969	*53,571*
Shareholders' equity			
Ordinary shares	511	507	*823*
Additional paid in capital	69,253	65,362	*111,497*
Cumulative translation adjustment	(663)	144	*(1,067)*
Retained earnings	121,403	89,766	*195,459*
Treasury stock, at cost	(18,034)	(19,934)	*(29,035)*
Total shareholders' equity	172,470	135,845	*277,677*
Total liabilities and shareholders' equity	205,744	175,814	*331,248*

(1) Translated solely for the convenience of the reader at December 31, 2002 closing rate of $ 1.6100 = £1

ARM Holdings plc
Results for the Year Ended 31 December 2002 – UK GAAP

Consolidated Profit and Loss Account

		Year Ended 31 Dec 2002 Unaudited	Year Ended 31 Dec 2001 Audited(2)
	£'000	**£'000**	**£'000**
Turnover		150,922	146,274
Cost of sales		13,185	17,289
Gross profit		137,737	128,985
Operating expenses			
Research and development		48,674	38,920
Sales and marketing		24,516	21,448
Administrative expenses		21,458	22,835
Exceptional item			
Research and development	1,327		-
Sales and marketing	320		-
Administrative expenses	313		-
		1,960	-
Total operating expenses		96,608	83,203
Total operating profit		41,129	45,782
Net gain on disposals of trade investments		-	314
Interest receivable, net		4,373	4,470
Profit on ordinary activities before taxation		45,502	50,566
Tax on profit on ordinary activities		13,031	15,874
Profit on ordinary activities after taxation		32,471	34,692
Minority interest		232	303
Profit for the financial period		32,239	34,389
Dividend paid		-	-
Retained profit for the period		32,239	34,389
Basic earnings per share (pence)		3.2	3.4
Fully diluted earnings per share (pence)		3.2	3.4

Consolidated Balance Sheet

	31 Dec 2002 Unaudited	31 Dec 2001 Audited(2)
	£'000	**£'000**
Intangible fixed assets	9,153	12,427
Tangible fixed assets	25,721	22,668
Other investments	4,229	3,555
Investment in own shares	2,166	2,388
	41,269	41,038
Stocks	1,515	581
Debtors and prepayments	33,558	32,204
Short term investments	126,013	94,376
Cash in hand and at bank	4,291	10,091
Creditors: amounts falling due within 1 year	(31,483)	(39,360)
Net current assets	133,894	97,892
Total assets less current liabilities	175,163	138,930
Provisions for liabilities and charges	(16)	(210)
Net assets	175,147	138,720
Shareholders' funds	174,306	138,111
Minority interests	841	609
Capital employed	**175,147**	**138,720**

Consolidated Cash flow Statement

	Year Ended 31 Dec 2002 Unaudited	Year Ended 31 Dec 2001 Audited
	£'000	**£'000**
Net cash inflow from operating activities	52,087	57,001
Returns on investments and servicing of finance	4,187	4,604
Taxation	(16,758)	(9,643)
Capital expenditure and financial investment	(17,714)	(22,952)
Acquisitions and disposals	-	(1,351)
Management of liquid resources	(31,637)	(24,893)
Financing	4,763	1,558
(Decrease)/increase in cash	(5,072)	4,324

Notes to the UK GAAP Financial Statements

(1) 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 ARM Holdings plc'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. The transitional impairment review carried out on adoption of SFAS 142 did not give any indication of impairment.

Acquisitions Under US GAAP, payments to purchase intangible assets that are still in development are charged directly to the profit and loss account. Such payments are included within goodwill under UK GAAP, giving rise to a difference in goodwill recognised 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. Under UK GAAP, the group's accounting policy is to carry such investments at cost less any provisions for diminution in value.

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. Investment in own shares is held at the lower of cost and amounts receivable on exercise of options, where applicable, and market value. Under US GAAP, these shares are treated as treasury stock and are included within shareholders' equity, at original cost.

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.

Employee 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 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 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.

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 current asset 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.

(2) Deferred taxation
The group has adopted FRS 19 'Deferred Tax' and has implemented it by way of a prior year adjustment. The current period effect of this is to decrease the UK GAAP tax charge by £500,000. The effect for 2001 is to increase the UK GAAP tax charge by £268,000 and to increase shareholders' funds at 31 December 2001 by £584,000. There is no longer any difference between UK GAAP and US GAAP in respect of the basis of calculation of deferred tax.

UK/US GAAP Reconciliations – profit and loss account

	Twelve months Ended 31 December 2002 Unaudited	Twelve months Ended 31 December 2001 Audited[(2)]
	£'000	£'000
Retained profit under UK GAAP	32,239	34,389
Movement on provision for employer's taxes on share options	(194)	(9)
Compensation charge in respect of SAYE options	(56)	-
Difference on amortisation of goodwill	1,352	50
Mark-to-market of embedded derivatives	(950)	-
Tax deduction for US employee share options	(754)	(428)
Net income under US GAAP	31,637	34,002

UK/US GAAP Reconciliations - balance sheet

	31 December 2002 Unaudited	31 December 2001 Audited[(2)]
	£'000	£'000
Cash under UK GAAP	4,291	10,091
Short term investments	126,013	94,376
Cash and cash equivalents under US GAAP	130,304	104,467
Shareholders' funds under UK GAAP	174,306	138,111
Provision for employer's taxes on share options	16	210
Write off of in-process research and development	(150)	(150)
Cumulative differences on amortisation of goodwill	1,414	62
Mark-to-market of embedded derivatives	(950)	-
Investment in own shares /treasury stock	(2,166)	(2,388)
Shareholders' equity under US GAAP	172,470	135,845

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 December 31, 2001 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 is the industry's leading provider of 16/32-bit embedded RISC microprocessor solutions. ARM licenses its high-performance, low-cost, power-efficient RISC processors, peripherals, and system-on-chip designs to leading electronics companies. The company also provides comprehensive support required in developing a complete system. ARM's microprocessor cores are rapidly becoming a volume RISC standard in applications such as automotive, consumer entertainment, security, imaging, industrial, mass storage, networking and wireless.

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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.

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