

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

	Quarter ended 31 December 2003 Unaudited £'000	Quarter ended 31 December 2002 Unaudited £'000	Year ended 31 December 2003 Unaudited £'000	Year ended 31 December 2002 Audited £'000	Year ended 31 December 2003 ⁽¹⁾ Unaudited \$'000
Revenues					
Product revenues	29,697	27,965	112,958	132,911	202,195
Service revenues	4,255	4,347	15,112	18,011	27,050
Total revenues	33,952	32,312	128,070	150,922	229,245
Cost of revenues					
Product costs	(2,082)	(1,265)	(6,171)	(6,464)	(11,046)
Service costs	(1,098)	(1,300)	(4,851)	(6,721)	(8,683)
Total cost of revenues	(3,180)	(2,565)	(11,022)	(13,185)	(19,729)
Gross profit	30,772	29,747	117,048	137,737	209,516
Research and development	(11,395)	(10,966)	(48,131)	(47,299)	(86,155)
Sales and marketing	(6,046)	(5,668)	(22,960)	(24,711)	(41,098)
General and administration	(5,757)	(6,842)	(22,294)	(22,486)	(39,906)
Restructuring costs	-	(1,960)	-	(1,960)	-
Total operating expenses	(23,198)	(25,436)	(93,385)	(96,456)	(167,159)
Income from operations	7,574	4,311	23,663	41,281	42,357
Interest	1,339	1,293	4,801	4,373	8,594
Minority interest	-	(55)	(105)	(232)	(188)
Income before income tax	8,913	5,549	28,359	45,422	50,763
Provision for income taxes	(2,944)	(1,946)	(8,943)	(13,785)	(16,008)
Net income	5,969	3,603	19,416	31,637	34,755
Net income	5,969	3,603	19,416	31,637	34,755
Other comprehensive income					
Foreign currency adjustments	(1,331)	(242)	(1,425)	(807)	(2,551)
Unrealized holding gain on available-for-sale securities, net of tax	(909)	-	1,979	-	3,542
Total comprehensive income	3,729	3,361	19,970	30,830	35,746
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,042,674	1,018,043	1,033,307	1,020,760	
Earnings per share – pence	0.6	0.4	1.9	3.1	
Earnings per ADS (assuming dilution)					
ADS's outstanding ('000)	347,558	339,348	344,436	340,253	
Earnings per ADS – cents	3.1	1.7	10.1	15.0	

(1) US dollar amounts have been translated from sterling at the 31 December 2003 closing rate of \$1.79=£1

ARM Holdings plc
Consolidated Balance Sheet-US GAAP

	31 December 2003 Unaudited £'000	31 December 2002 Audited £'000	31 December 2003 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	130,722	130,304	233,992
Short-term investments	29,064	-	52,025
Accounts receivable, net of allowance of £1,115,000 in 2003 and £2,193,000 in 2002	17,320	20,516	31,003
Inventory	931	1,515	1,666
Prepaid expenses and other assets	8,924	11,345	15,974
Total current assets	186,961	163,680	334,660
Deferred income taxes	3,139	1,697	5,619
Property and equipment, net	16,583	25,721	29,684
Intangible assets	10,068	10,417	18,022
Investments	6,246	4,229	11,180
Total assets	222,997	205,744	399,165
Liabilities and shareholders' equity			
Accounts payable	2,691	4,730	4,817
Income taxes payable	3,140	3,828	5,621
Personnel taxes	1,047	824	1,874
Accrued liabilities	10,512	8,636	18,816
Deferred revenue	11,132	14,415	19,926
Total liabilities	28,522	32,433	51,054
Minority interest	-	841	-
	28,522	33,274	51,054
Shareholders' equity			
Ordinary shares	512	511	916
Additional paid in capital	63,321	69,566	113,345
Deferred compensation	(2,499)	(313)	(4,473)
Treasury stock, at cost	(7,569)	(18,034)	(13,548)
Retained earnings	140,819	121,403	252,066
Unrealized holding gain on available -for-sale securities, net of tax	1,979	-	3,542
Cumulative translation adjustment	(2,088)	(663)	(3,737)
Total shareholders' equity	194,475	172,470	348,111
Total liabilities and shareholders' equity	222,997	205,744	399,165

(1) US dollar amounts have been translated from sterling at the 31 December 2003 closing rate of \$1.79=£1

ARM Holdings plc
Results for the Year Ended 31 December 2003 – UK GAAP

Consolidated Profit and Loss Account

	Year ended 31 December 2003 Unaudited £'000	Year ended 31 December 2002 Audited £'000
Turnover	128,070	150,922
Cost of sales	(11,022)	(13,185)
Gross profit	117,048	137,737
Operating expenses		
Research and development	(48,131)	(50,001)
Sales and marketing	(23,007)	(24,836)
Administrative expenses	(21,071)	(21,771)
Total operating expenses	(92,209)	(96,608)
Operating profit	24,839	41,129
Interest receivable, net	4,801	4,373
Profit on ordinary activities before taxation	29,640	45,502
Tax on profit on ordinary activities	(7,977)	(13,031)
Profit on ordinary activities after taxation	21,663	32,471
Minority interest	(105)	(232)
Profit for the period	21,558	32,239
Equity dividends proposed	(6,106)	-
Retained profit for the period	15,452	32,239
Basic earnings per share (pence)	2.1	3.2
Fully diluted earnings per share (pence)	2.1	3.2

Consolidated Balance Sheet

	31 December 2003 Unaudited £'000	31 December 2002 Audited ⁽³⁾ £'000
Intangible fixed assets	7,547	9,153
Tangible fixed assets	16,583	25,721
Other investments	4,759	4,229
	28,889	39,103
Stocks	931	1,515
Debtors and prepayments	29,829	33,558
Short term investments	129,663	126,013
Cash at bank and in hand	30,123	4,291
Creditors: amounts falling due within 1 year	(32,537)	(31,483)
Net current assets	158,009	133,894
Total assets less current liabilities	186,898	172,997
Provisions for liabilities and charges	(63)	(16)
Net assets	186,835	172,981
Shareholders' funds	186,835	172,140
Minority interests	-	841
Capital employed	186,835	172,981

Consolidated Cash Flow Statement

	Year ended 31 December 2003 Unaudited £'000	Year ended 31 December 2002 Audited £'000
Net cash inflow from operating activities	43,740	52,087
Returns on investments and servicing of finance	4,930	4,187
Taxation	(9,925)	(16,758)
Capital expenditure and financial investment	(4,821)	(17,714)
Acquisitions and disposals	(3,390)	-
Management of liquid resources	(3,650)	(31,637)
Financing	255	4,763
Increase / (decrease) in cash	27,139	(5,072)

Notes to the UK GAAP Financial Statements

(1) Basis of preparation – functional currency

The Company maintains its accounting records and prepares its financial statements in British 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 31 December 2003 of \$1.79=£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 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 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 our 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 “Goodwill and other intangible assets” for categorisation 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 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. 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 provisions for impairment.

Long term incentive plan (‘LTIP’) Under UK GAAP, the fair value of 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, 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 during each accounting period 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 only 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 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 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.

Consolidated profit and loss account Under UK GAAP, gains and losses on disposal of fixed asset trade investments are shown after operating profit. Under US GAAP, gains and losses are reported in income from operations. Under UK GAAP, profit before tax is stated before minority interests. Under US GAAP, income before income tax is stated after minority interests.

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) Investment in own shares

The group has adopted UITF 38, "Accounting for ESOP Trusts", during the year by means of a prior year adjustment. There is no effect on the current or prior year's profit for the group. The effect for 2002 is to decrease shareholders' funds and investments at 31 December 2002 by £2,166,000 in the group balance sheet. The effect for 2003 is to decrease shareholders' funds and investments at 31 December 2003 by £1,903,000 in the group balance sheet.

UK/US GAAP Reconciliations – profit and loss account

	Year ended 31 December 2003 Unaudited	Year ended 31 December 2002 Audited
	£'000	£'000
Profit for the financial year under UK GAAP	21,558	32,239
Employer's taxes on share options	47	(194)
Compensation charge in respect of SAYE schemes	(310)	(56)
Compensation charge in respect of LTIP	(91)	-
Write-back of goodwill	1,299	1,352
Amortisation of intangibles	(42)	-
Embedded derivatives	(1,141)	(950)
Tax on UK and US employee share options	(966)	(754)
Impairment of marketable security	(938)	-
Net income under US GAAP	19,416	31,637

UK/US GAAP Reconciliations - balance sheet

	31 December 2003 Unaudited	31 December 2002 Audited
	£'000	£'000
Cash as reported under UK GAAP	30,123	4,291
Adjustment for short-term investments treated as cash equivalents under US GAAP	100,599	126,013
Cash and cash equivalents under US GAAP	130,722	130,304
Short-term investment reported under UK GAAP	129,663	126,013
Adjustment for short-term investments treated as cash equivalents under US GAAP	(100,599)	(126,013)
Cash and cash equivalents under US GAAP	29,064	-
Shareholders' funds under UK GAAP ^(note 3)	186,835	172,140
Employer's taxes on share options	63	16
Cumulative difference on amortisation of goodwill	2,713	1,414
Cumulative difference on amortisation of intangibles	(192)	(150)
Embedded derivatives	(2,091)	(950)
Unrealised gain on marketable security	1,041	-
Dividends payable	6,106	-
Shareholders' equity under US GAAP	194,475	172,470

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 2002 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.