

ARM Holdings plc
Fourth Quarter and Annual Results – US GAAP

	Quarter ended 31 December 2004 Unaudited £'000	Quarter ended 31 December 2003 Unaudited £'000	Year ended 31 December 2004 Unaudited £'000	Year ended 31 December 2003 Audited £'000	Year ended 31 December 2004 ⁽¹⁾ Unaudited \$'000
Revenues					
Product revenues	38,150	29,697	138,732	112,958	266,365
Service revenues	3,385	4,255	14,165	15,112	27,197
Total revenues	41,535	33,952	152,897	128,070	293,562
Cost of revenues					
Product costs	(2,558)	(2,082)	(6,735)	(6,171)	(12,931)
Service costs	(1,168)	(1,098)	(5,064)	(4,851)	(9,723)
Total cost of revenues	(3,726)	(3,180)	(11,799)	(11,022)	(22,654)
Gross profit	37,809	30,772	141,098	117,048	270,908
Research and development	(13,030)	(11,395)	(50,133)	(48,131)	(96,255)
Sales and marketing	(6,342)	(6,046)	(23,935)	(22,960)	(45,955)
General and administration	(11,308)	(12,132)	(31,331)	(28,652)	(60,156)
In-process research and development	(3,256)	-	(3,612)	-	(6,935)
Amortization of intangibles purchased through business combination	(456)	(25)	(576)	(42)	(1,106)
Total operating expenses	(34,392)	(29,598)	(109,587)	(99,785)	(210,407)
Income from operations	3,417	1,174	31,511	17,263	60,501
Interest	1,917	1,339	6,944	4,801	13,333
Minority interest	-	-	-	(105)	-
Income before income tax	5,334	2,513	38,455	21,959	73,834
Provision for income taxes	(825)	(2,944)	(10,478)	(8,943)	(20,118)
Net income / (loss)	4,509	(431)	27,977	13,016	53,716
Net income / (loss)	4,509	(431)	27,977	13,016	53,716
Other comprehensive income					
Foreign currency adjustments	(183)	(1,331)	(421)	(1,425)	(808)
Unrealized holding gain / (loss) on available-for-sale securities, net of tax	1,954	(909)	4,196	1,979	8,056
Total comprehensive income / (loss)	6,280	(2,671)	31,752	13,570	60,964
Earnings per share (assuming dilution)					
Shares outstanding ('000)	1,071,645	1,042,674	1,049,768	1,033,307	
Earnings / (loss) per share – pence	0.4	(0.0)	2.7	1.3	
Earnings per ADS (assuming dilution)					
ADSs outstanding ('000)	357,215	347,558	349,923	344,436	
Earnings / (loss) per ADS – cents	2.4	(0.2)	15.4	6.8	

(1) US dollar amounts have been translated from sterling at the 31 December 2004 closing rate of \$1.92=£1 (see note 1)

ARM Holdings plc
Consolidated balance sheet-US GAAP

	31 December 2004 Unaudited £'000	31 December 2003 Audited £'000	31 December 2004 ⁽¹⁾ Unaudited \$'000
Assets			
Current assets:			
Cash and cash equivalents	110,561	130,722	212,277
Short-term investments and marketable securities	26,818	29,064	51,491
Accounts receivable, net of allowance of £1,451,000 in 2004 and £1,115,000 in 2003	34,347	17,320	65,946
Inventory: finished goods	897	931	1,722
Prepaid expenses and other assets	16,001	8,924	30,722
Total current assets	188,624	186,961	362,158
Long-term marketable securities	5,438	-	10,441
Deferred income taxes	18,755	3,139	36,009
Property and equipment, net	14,117	16,583	27,105
Goodwill	339,717	4,352	652,257
Other intangible assets	74,578	5,716	143,190
Investments	12,235	6,246	23,491
Total assets	653,464	222,997	1,254,651
Liabilities and shareholders' equity			
Accounts payable	4,110	2,691	7,891
Income taxes payable	6,345	3,140	12,182
Personnel taxes	1,123	1,047	2,156
Accrued liabilities (see note 2)	37,901	16,912	72,770
Deferred revenue	21,355	11,132	41,002
Total current liabilities	70,834	34,922	136,001
Accrued liabilities	1,732	-	3,326
Deferred income taxes	28,571	-	54,856
Total liabilities	101,137	34,922	194,183
Shareholders' equity			
Ordinary shares	675	512	1,296
Additional paid in capital	414,133	63,321	795,135
Deferred compensation	(12,083)	(2,499)	(23,199)
Treasury stock, at cost	(7,485)	(7,569)	(14,371)
Retained earnings	153,421	134,419	294,568
Other comprehensive income:			
Unrealized holding gain on available-for-sale securities, net of tax	6,175	1,979	11,856
Cumulative translation adjustment	(2,509)	(2,088)	(4,817)
Total shareholders' equity	552,327	188,075	1,060,468
Total liabilities and shareholders' equity	653,464	222,997	1,254,651

(1) US dollar amounts have been translated from sterling at the 31 December 2004 closing rate of \$1.92=£1 (see note 1)

ARM Holdings plc
Results for the Year Ended 31 December 2004 – UK GAAP

Consolidated profit and loss account

	Year ended 31 December 2004 Unaudited	Year ended 31 December 2003 Audited
	£'000	£'000
Turnover	152,897	128,070
Cost of sales	(11,799)	(11,022)
Gross profit	141,098	117,048
Operating expenses:		
Research and development	(50,133)	(48,131)
Sales and marketing	(23,899)	(23,007)
Administrative expenses	(31,845)	(27,471)
Total operating expenses	(105,877)	(98,609)
Operating profit	35,221	18,439
Interest receivable, net	6,944	4,801
Profit on ordinary activities before taxation	42,165	23,240
Tax on profit on ordinary activities	(10,153)	(7,977)
Profit on ordinary activities after taxation	32,012	15,263
Minority interest	-	(105)
Profit for the year	32,012	15,158
Dividends paid and proposed	(8,542)	(6,106)
Retained profit for the year	23,470	9,052
Basic earnings per share (pence)	3.1	1.5
Fully diluted earnings per share (pence)	3.1	1.5

All activities relate to continuing activities. The acquisition of Artisan Components Inc. was completed on 23 December 2004, and, since trading results between 24 December 2004 and 31 December 2004 are not material, no separate disclosure has been made. In August 2004, the Group acquired Axyx Design Automation Inc. The post-acquisition results of Axyx are not material and so have not been separately disclosed on the face of the profit and loss account.

Consolidated balance sheet

	31 December 2004 Unaudited	31 December 2003 Audited
	£'000	£'000
Intangible fixed assets (see note 3)	461,709	7,547
Tangible fixed assets	14,117	16,583
Investments	10,751	4,759
	486,577	28,889
Stocks	897	931
Debtors (including £6,385,000 long-term deferred tax asset)	71,627	29,829
Short-term investments	59,186	129,663
Cash at bank and in hand	78,193	30,123
	209,903	190,546
Creditors: amounts falling due within 1 year	(76,193)	(38,937)
Net current assets	133,710	151,609
Total assets less current liabilities	620,287	180,498
Creditors: amounts falling due after 1 year	(1,732)	-
Provisions for liabilities and charges	(27)	(63)
Net assets	618,528	180,435
Equity shareholders' funds (see note 4)	618,528	180,435

Consolidated cash flow statement

	Year ended 31 December 2004 Unaudited £'000	Year ended 31 December 2003 Audited £'000
Net cash inflow from operating activities	50,753	43,740
Returns on investments and servicing of finance	7,233	4,930
Taxation	(11,601)	(9,925)
Capital expenditure and financial investment	(5,422)	(4,821)
Acquisitions	(88,317)	(3,390)
Equity dividends paid	(8,975)	-
Management of liquid resources	102,965	(3,650)
Financing	1,313	255
Increase in cash	47,949	27,139

Notes to the 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 31 December 2004 of \$1.92=£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) Accrued liabilities – US GAAP

Accrued liabilities under US GAAP of £37.9 million (2003: £16.9 million) includes: £13.8 million (2003: £nil) for acquisition-related expenses; £nil (2003: £6.4 million) for the Herodion settlement; and £2.8 million (2003: £2.1 million) for the FAS 133 accrual.

(3) Summary intangible fixed asset note – UK GAAP

	Goodwill £'000	Other intangibles £'000	Total £'000
Net book value at 1 January 2004	2,091	5,456	7,547
Acquisition of Artisan and Axys	459,164	-	459,164
Other additions	-	160	160
Amortisation in the year	(2,103)	(2,621)	(4,724)
Exchange differences	(438)	-	(438)
Net book value at 31 December 2004	458,714	2,995	461,709

(4) Summary reserve note and reconciliation of shareholders' funds – UK GAAP

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign exchange reserve £'000	Other reserve £'000	Profit and loss account £'000	Equity shareholders' funds £'000
At 1 January 2004	512	81,137	-	(2,088)	-	100,874	180,435
Exercise of share options	1	1,310	-	-	-	-	1,311
Acquisition of Artisan	162	-	351,579	-	61,474	-	413,215
Shares allocated to satisfy SAYE exercises	-	-	-	-	-	12	12
Credit in respect of employee share awards	-	-	-	-	-	495	495
Exchange differences on consolidation	-	-	-	(410)	-	-	(410)
Retained profit for the year	-	-	-	-	-	23,470	23,470
At 31 December 2004	675	82,447	351,579	(2,498)	61,474	124,851	618,528

(5) 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 have arisen as a result of the Group’s initial or annual 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 categorisation as intangible assets other than goodwill and are amortised over their useful economic lives. A deferred tax liability arises on the intangible assets, and is credited to the profit and loss account proportionately to the amortisation of the related intangible assets. 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, the associated amortisation charge and the associated deferred tax liability and income statement credit.

Valuation of consideration on business combination Under both US and UK GAAP, the fair value of consideration in a business combination includes the fair value of both equity issued and any share options granted as part of that combination, which are then used in the goodwill calculation. Under UK GAAP, any equity issued is valued at the fair value as of the date of completion, whilst under US GAAP, the equity is valued at the date the terms of the combination were agreed to and announced. For options, under US GAAP, the fair value is based upon the total number of options granted, both vested and unvested, whilst under UK GAAP the fair value only includes those that have vested, together with a pro-rata value for partially vested options. Furthermore, where there is contingent consideration for an acquisition, under UK GAAP this is recognised as part of the purchase consideration if the contingent conditions are expected to be satisfied, whilst under US GAAP it is only recognised if the conditions have actually been met.

Deferred stock-based compensation Under US GAAP, the intrinsic value of unvested stock options issued by an acquirer as part of a business combination in exchange for unvested share options of the acquiree is recorded as a debit balance within shareholders’ funds and as a reduction in goodwill. This amount is charged to the profit and loss account over the vesting period of the share options in accordance with FIN 28 “Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans”. Under UK GAAP, no such adjustment to goodwill and shareholders’ funds is made on acquisition. Although the same charge as under US GAAP is subsequently made to the profit and loss account, it is written back through reserves rather than offset against goodwill.

Fair values of assets and liabilities acquired The conventions under which the fair value of assets acquired and liabilities assumed in a purchase business combination is determined differ between UK and US GAAP, for example, in relation to the valuation of deferred revenue and related costs. In addition, US GAAP permits, in accordance with EITF 95-3 “Recognition of Liabilities in Connection with a Purchase Business Combination”, the recognition in the acquired company’s opening balance sheet of a provision for costs to exit an activity of an acquired company. UK GAAP does not permit the recognition of such liabilities where they result from the acquirer’s intentions or future actions.

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 utilised 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.

UK/US GAAP Reconciliations – profit and loss account

	Year ended 31 December 2004 Unaudited £'000	Year ended 31 December 2003 Audited £'000
Profit for the financial period as reported under UK GAAP	32,012	15,158
Adjustments for:		
Employer's taxes on share options	(36)	47
Compensation charge in respect of SAYE options	(341)	(310)
Compensation charge in respect of LTIP	(124)	(91)
Write-back of goodwill amortisation	2,103	1,299
Amortisation of intangibles	(576)	(42)
Write-off of in-process research and development	(3,612)	-
Deferred tax on intangibles	190	-
Embedded derivatives	(732)	(1,141)
Tax on UK and US employee share options	(515)	(966)
Impairment of marketable security	(392)	(938)
Net income as reported under US GAAP	27,977	13,016

UK/US GAAP Reconciliations - balance sheet

	31 December 2004 Unaudited	31 December 2003 Audited
	£'000	£'000
Shareholders' funds as reported under UK GAAP	618,528	180,435
Adjustments for:		
Employer's taxes on share options	27	63
Cumulative difference on amortisation of goodwill	4,816	2,713
Cumulative difference on amortisation of intangibles	(618)	(42)
Cumulative write-off of in-process research and development	(3,762)	(150)
Deferred tax on intangibles	190	-
Embedded derivatives	(2,823)	(2,091)
Valuation of equity consideration on acquisition	(82,435)	-
Valuation of option consideration on acquisition	17,476	-
Deferred compensation on acquisition	(9,579)	-
Unrealised gain on marketable securities	4,845	1,041
Dividends payable	5,673	6,106
Foreign exchange on revaluation of intangibles	(11)	-
Shareholders' equity as reported under US GAAP	<u>552,327</u>	<u>188,075</u>
Goodwill as reported under UK GAAP	458,714	2,091
Cumulative difference on amortisation of goodwill	4,816	2,713
Cumulative write-off of in-process research and development	(3,762)	(150)
Valuation of equity consideration on acquisition	(82,435)	-
Valuation of option consideration on acquisition	17,476	-
Deferred compensation on acquisition	(9,579)	-
Separately identifiable intangibles (net of deferred tax)	(43,504)	(302)
De-recognition of contingent consideration	(1,665)	-
Fair value of deferred revenue and costs	(499)	-
Exchange differences	155	-
Goodwill as reported under US GAAP	<u>339,717</u>	<u>4,352</u>
Cash as reported under UK GAAP	78,193	30,123
Adjustment for short-term investments treated as cash equivalents under US GAAP	32,368	100,599
Cash and cash equivalents as reported under US GAAP	<u>110,561</u>	<u>130,722</u>
Short-term investments as reported under UK GAAP	59,186	129,663
Adjustment for short-term investments treated as cash equivalents under US GAAP	(32,368)	(100,599)
Short-term investments as reported under US GAAP	<u>26,818</u>	<u>29,064</u>

(6) Non-GAAP measures

The following non-GAAP measures, including reconciliations to the GAAP measures, have been used in this earnings release. These measures have been presented as they allow a clearer comparison of operating results that exclude one-off non-recurring charges and acquisition-related charges. All figures in £000.

	(6.1) Q4 2004	(6.2) Q3 2004	(6.3) Q4 2003	(6.11) 2004	(6.12) 2003
Income from operations	3,417	11,405	1,174	31,511	17,263
Non-recurring charge – technology license agreement	4,510	-	-	4,510	-
Non-recurring charge – Herodion provision	-	-	6,400	-	6,400
Acquisition-related charge – in-process research and development	3,256	356	-	3,612	42
Acquisition-related charge – amortisation of intangibles	456	70	25	576	42
Pro forma income from operations	11,639	11,831	7,599	40,209	23,705
As % of revenue	28.0%	30.0%	22.4%	26.3%	18.5%

	(6.4) 31 December 2004	30 September 2004	(6.13) 31 December 2003
Cash and cash equivalents	110,561	137,491	130,722
Short-term investments and marketable securities	26,818	37,059	29,064
Long-term marketable securities	5,438	-	-
Pro forma cash	142,817	174,550	159,786

	(6.5) Q4 2004
Pro forma cash at 31 December 2004 (as above)	142,817
Less: Pro forma cash at 30 September 2004 (as above)	(174,550)
Less: Cash, cash equivalents and marketable securities of Artisan at 31 December 2004	(84,371)
Add back: Acquisition costs for Artisan	126,162
Pro forma net cash generation	10,058

	(6.6) Q4 2004	(6.7) Q3 2004	(6.8) Q4 2003	(6.9) 2004	(6.10) 2003
Net income / (loss)	4,509	9,533	(431)	27,977	13,016
Non-recurring charge – technology license agreement	4,510	-	-	4,510	-
Non-recurring charge – Herodion provision	-	-	6,400	-	6,400
Acquisition-related charge – in-process research and development	3,256	356	-	3,612	-
Acquisition-related charge – amortisation of intangibles	456	70	25	576	42
Pro forma net income	12,731	9,959	5,994	36,675	19,458
Dilutive shares ('000)	1,071,645	1,039,329	1,042,674	1,049,768	1,033,307
Pro forma diluted EPS	1.2p	1.0p	0.6p	3.5p	1.9p

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.