

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

	Quarter ended 30 June 2008 Unaudited £'000	Quarter ended 30 June 2007 Unaudited £'000	Six months ended 30 June 2008 Unaudited £'000	Six months ended 30 June 2007 Unaudited £'000
Revenues				
Product revenues	60,772	61,215	124,589	123,515
Service revenues	4,243	4,317	8,314	8,509
Total revenues	65,015	65,532	132,903	132,024
Cost of revenues				
Product costs	(5,358)	(5,421)	(11,158)	(11,059)
Service costs	(1,953)	(1,636)	(3,993)	(3,226)
Total cost of revenues	(7,311)	(7,057)	(15,151)	(14,285)
Gross profit	57,704	58,475	117,752	117,739
Research and development	(17,764)	(18,460)	(36,730)	(37,457)
Sales and marketing	(11,351)	(11,430)	(22,905)	(23,336)
General and administrative	(11,805)	(12,659)	(24,507)	(25,121)
Restructuring costs	(469)	(814)	(1,187)	(814)
Amortization of intangibles purchased through business combination	(4,404)	(4,612)	(8,834)	(9,267)
Total operating expenses	(45,793)	(47,975)	(94,163)	(95,995)
Income from operations	11,911	10,500	23,589	21,744
Interest, net	653	1,520	1,224	2,977
Income before income tax	12,564	12,020	24,813	24,721
Provision for income taxes	(3,455)	(3,173)	(6,762)	(6,297)
Net income	9,109	8,847	18,051	18,424
Earnings per share (assuming dilution)				
Shares outstanding ('000)	1,290,856	1,374,410	1,297,283	1,376,270
Earnings per share – pence	0.7	0.6	1.4	1.3
Earnings per ADS (assuming dilution)				
ADSs outstanding ('000)	430,285	458,137	432,428	458,757
Earnings per ADS – cents	4.2	3.9	8.3	8.1

ARM Holdings plc
Consolidated balance sheet - US GAAP

	30 June	31 December
	2008	2007
	Unaudited	Audited
	£'000	£'000
Assets		
Current assets:		
Cash and cash equivalents	50,450	49,509
Short-term investments	194	232
Marketable securities	-	1,582
Accounts receivable, net of allowance of £1,502,000 in 2008 and £1,504,000 in 2007	60,254	68,232
Inventory: finished goods	2,303	2,339
Income taxes receivable	7,172	6,552
Prepaid expenses and other assets	20,524	13,089
Investments	-	1,180
Total current assets	<u>140,897</u>	<u>142,715</u>
Deferred income taxes	13,584	11,309
Prepaid expenses and other assets	2,486	2,860
Property and equipment, net	10,563	12,042
Goodwill	344,662	344,663
Other intangible assets	30,635	39,375
Investments	4,944	3,701
Total assets	<u>547,771</u>	<u>556,665</u>
Liabilities and shareholders' equity		
Accounts payable	2,347	2,230
Income taxes payable	13,305	3,704
Personnel taxes	1,938	1,751
Accrued liabilities	19,958	25,670
Deferred revenue	29,148	27,543
Total current liabilities	<u>66,696</u>	<u>60,898</u>
Deferred income taxes	1,050	2,027
Total liabilities	<u>67,746</u>	<u>62,925</u>
Shareholders' equity		
Ordinary shares	672	672
Additional paid-in capital	374,975	367,680
Treasury stock, at cost	(101,679)	(90,000)
Retained earnings	224,188	234,455
Accumulated other comprehensive income:		
Unrealized holding loss on available-for-sale securities, net of tax of £nil (2007: £85,000)	(87)	(214)
Cumulative translation adjustment	(18,044)	(18,853)
Total shareholders' equity	<u>480,025</u>	<u>493,740</u>
Total liabilities and shareholders' equity	<u>547,771</u>	<u>556,665</u>

ARM Holdings plc
Consolidated income statement – IFRS

	Six months ended 30 June 2008 Unaudited £'000	Six months ended 30 June 2007 Unaudited £'000	Year ended 31 December 2007 Audited £'000
Revenues			
Product revenues	124,589	123,515	242,726
Service revenues	8,314	8,509	16,434
Total revenues	132,903	132,024	259,160
Cost of revenues			
Product costs	(11,158)	(11,059)	(21,475)
Service costs (see note 2)	(4,013)	(3,282)	(6,630)
Total cost of revenues	(15,171)	(14,341)	(28,105)
Gross profit	117,732	117,683	231,055
Operating expenses			
Research and development (see note 2)	(42,048)	(42,944)	(83,977)
Sales and marketing (see note 2)	(26,807)	(27,845)	(55,298)
General and administrative (see note 2)	(25,906)	(26,013)	(52,086)
Total net operating expenses	(94,761)	(96,802)	(191,361)
Profit from operations	22,971	20,881	39,694
Investment income	1,251	2,977	5,459
Interest payable	(27)	-	(57)
Profit before tax	24,195	23,858	45,096
Tax	(9,098)	(6,452)	(9,846)
Profit for the period	15,097	17,406	35,250
Dividends			
- final 2006 paid (on 21 May 2007) at 0.6 pence per share	-	8,013	8,013
- interim 2007 paid (on 5 October 2007) at 0.8 pence per share	-	-	10,534
- final 2007 paid (on 21 May 2008) at 1.2 pence per share	15,267	-	-
- interim 2008 proposed at 0.88 pence per share	11,094	-	-
Earnings per share			
Basic and diluted earnings	15,097	17,406	35,250
Number of shares ('000)			
Basic weighted average number of shares	1,272,758	1,334,892	1,321,860
Effect of dilutive securities: Share options and awards	20,967	33,882	39,301
Diluted weighted average number of shares	1,293,725	1,368,774	1,361,161
Basic EPS	1.2p	1.3p	2.7p
Diluted EPS	1.2p	1.3p	2.6p

All activities relate to continuing operations.

All of the profit for the period is attributable to the equity shareholders of the parent.

ARM Holdings plc
Consolidated balance sheet - IFRS

	30 June	31 December
	2008	2007
	Unaudited	Audited
	£'000	£'000
Assets		
Current assets:		
Financial assets: Cash and cash equivalents	50,450	49,509
Short-term investments	194	232
Short-term marketable securities	-	1,582
Available-for-sale investments	-	1,180
Fair value of currency exchange contracts	142	-
Accounts receivable	60,254	68,232
Prepaid expenses and other assets	20,382	13,089
Current tax assets	7,172	6,552
Inventories: finished goods	2,303	2,339
Total current assets	140,897	142,715
Non-current assets:		
Financial assets: Available-for-sale investments	4,944	3,701
Prepaid expenses and other assets	2,486	2,860
Property, plant and equipment	8,412	9,336
Goodwill	419,381	420,835
Other intangible assets	34,482	44,264
Deferred tax assets	18,516	19,233
Total non-current assets	488,221	500,229
Total assets	629,118	642,944
Liabilities and shareholders' equity		
Current liabilities:		
Financial liabilities: Accounts payable	2,347	2,230
Fair value of currency exchange contracts	-	496
Current tax liabilities	13,305	3,704
Accrued and other liabilities	22,054	28,174
Deferred revenue	29,148	27,543
Total current liabilities	66,854	62,147
Net current assets	74,043	80,568
Non-current liabilities:		
Deferred tax liabilities	1,050	1,635
Total liabilities	67,904	63,782
Net assets	561,214	579,162
Capital and reserves attributable to equity holders of the Company		
Share capital	672	672
Share premium account	351,578	351,578
Share option reserve	61,474	61,474
Retained earnings	166,223	185,125
Revaluation reserve	(87)	(214)
Cumulative translation adjustment	(18,646)	(19,473)
Total equity	561,214	579,162

ARM Holdings plc
Consolidated cash flow statement - IFRS

	Six months ended 30 June 2008 Unaudited £'000	Six months ended 30 June 2007 Unaudited £'000	Year ended 31 December 2007 Audited £'000
Operating activities			
Profit from operations	22,971	20,881	39,694
Depreciation and amortisation of tangible and intangible assets	13,046	13,675	26,907
Loss on disposal of property, plant and equipment	3	353	317
Compensation charge in respect of share-based payments	7,733	8,611	16,786
Impairment of investments	-	-	2,100
Provision for doubtful debts	49	265	215
Provision for obsolescence of inventory	(62)	69	247
Movement in fair value of currency exchange contracts	(638)	(73)	935
Changes in working capital:			
Accounts receivable	8,011	(6,830)	260
Inventories	98	(688)	(653)
Prepaid expenses and other assets	(4,159)	(3,571)	(3,291)
Accounts payable	117	4,179	404
Deferred revenue	1,605	1,072	(3,877)
Accrued and other liabilities	(3,127)	(7,400)	(7,954)
Cash generated by operations before tax	45,647	30,543	72,090
Income taxes paid	(4,541)	(3,519)	(12,265)
Net cash from operating activities	41,106	27,024	59,825
Investing activities			
Interest received	971	3,041	5,607
Purchases of property, plant and equipment	(1,920)	(1,680)	(4,661)
Purchases of other intangible assets	(214)	(1,557)	(3,332)
Purchases of available-for-sale investments	(1,029)	-	(2,657)
Proceeds on disposal of available-for-sale investments	1,478	-	-
Maturity of short-term investments	1,533	21,737	35,937
Purchases of subsidiaries, net of cash acquired	(1,446)	(3,307)	(3,357)
Net cash from / (used in) investing activities	(627)	18,234	27,537
Financing activities			
Issue of shares	-	5,509	5,509
Proceeds received on issuance of shares from treasury	3,718	6,486	13,383
Purchase of own shares	(28,448)	(45,736)	(128,561)
Dividends paid to shareholders	(15,267)	(8,013)	(18,547)
Net cash used in financing activities	(39,997)	(41,754)	(128,216)
Net increase / (decrease) in cash and cash equivalents	482	3,504	(40,854)
Cash and cash equivalents at beginning of period	49,509	90,743	90,743
Effect of foreign exchange rate changes	459	(1,323)	(380)
Cash and cash equivalents at end of period	50,450	92,924	49,509

ARM Holdings plc
Consolidated statement of changes in shareholders' equity – IFRS

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Retained earnings £'000	Reval- -uation reserve £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2007 (audited)	695	449,195	61,474	161,453	(544)	(11,347)	660,926
Dividends	-	-	-	(8,013)	-	-	(8,013)
Movement on tax arising on share options	-	-	-	1,212	-	-	1,212
Purchase of own shares	-	-	-	(37,594)	-	-	(37,594)
Appropriation for future cancellation of shares	-	-	-	(8,142)	-	-	(8,142)
Proceeds from sale of own shares	-	-	-	6,486	-	-	6,486
Unrealised holding losses on available-for-sale investments*	-	-	-	-	(401)	-	(401)
Currency translation adjustment	-	-	-	-	-	(13,413)	(13,413)
Total expense recognised directly in equity in the period	-	-	-	(46,051)	(401)	(13,413)	(59,865)
Shares issued on exercise of options	5	5,504	-	-	-	-	5,509
Profit for the period	-	-	-	17,406	-	-	17,406
Credit in respect of employee share schemes	-	-	-	8,611	-	-	8,611
At 30 June 2007 (unaudited)	700	454,699	61,474	141,419	(945)	(24,760)	632,587
Dividends	-	-	-	(10,534)	-	-	(10,534)
Movement on tax arising on share options	-	-	-	1,000	-	-	1,000
Purchase of own shares	-	-	-	(82,825)	-	-	(82,825)
Cancellation of shares	(28)	-	-	28	-	-	-
Cancellation of share premium account	-	(103,121)	-	103,121	-	-	-
Proceeds from sale of own shares	-	-	-	6,897	-	-	6,897
Unrealised holding losses on available-for-sale investments*	-	-	-	-	731	-	731
Currency translation adjustment	-	-	-	-	-	5,287	5,287
Total income / (expense) recognised directly in equity in the period	(28)	(103,121)	-	17,687	731	5,287	(79,444)
Profit for the period	-	-	-	17,844	-	-	17,844
Credit in respect of employee share schemes	-	-	-	8,175	-	-	8,175
At 31 December 2007 (audited)	672	351,578	61,474	185,125	(214)	(19,473)	579,162
Dividends	-	-	-	(15,267)	-	-	(15,267)
Movement on tax arising on share options	-	-	-	(1,735)	-	-	(1,735)
Purchase of own shares	-	-	-	(28,448)	-	-	(28,448)
Proceeds from sale of own shares	-	-	-	3,718	-	-	3,718
Realised gain on available-for-sale investment**	-	-	-	-	214	-	214
Unrealised holding losses on available-for-sale investments*	-	-	-	-	(87)	-	(87)
Currency translation adjustment	-	-	-	-	-	827	827
Total income / (expense) recognised directly in equity in the period	-	-	-	(41,732)	127	827	(40,778)
Profit for the period	-	-	-	15,097	-	-	15,097
Credit in respect of employee share schemes	-	-	-	7,733	-	-	7,733
At 30 June 2008 (unaudited)	672	351,578	61,474	166,223	(87)	(18,646)	561,214

* Net of tax of £0.2 million in H1 2007, £0.3 million in H2 2007 and £nil in H1 2008.

** Net of tax of £0.1 million

Notes to the Financial Information

(1) Basis of preparation

US GAAP

The financial information prepared in accordance with the Company's US GAAP accounting policies comprises the consolidated balance sheets as of 30 June 2008 and 31 December 2007 and related income statements for the three and six months ended 30 June 2008 and 2007, together with related notes. In preparing this financial information management has used the principal accounting policies as set out in the Company's annual financial statements and Form 20-F for the year ended 31 December 2007.

International Financial Reporting Standards

The financial information prepared in accordance with the Group's IFRS accounting policies comprises the consolidated balance sheets as of 30 June 2008 and 31 December 2007 and related consolidated statements of income, changes in shareholders' equity and cash flows for the six months ended 30 June 2008 and 2007 and year ended 31 December 2007, together with related notes. This financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim financial reporting", as adopted by the European Union. In preparing this financial information management has used the principal accounting policies as set out in the Group's annual financial statements for the year ended 31 December 2007.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008, but are not currently relevant for the Group:

- IFRIC 12, 'Service concession arrangements'.
- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.

(2) Share-based compensation charges and acquisition-related expenses

Included within the US GAAP income statement for the quarter ended 30 June 2008 are share-based compensation charges of £3.6 million: £0.2 million in cost of revenues, £2.4 million in research and development costs, £0.5 million in sales and marketing costs and £0.5 million in general and administrative costs. Included within the US GAAP income statement for the six months ended 30 June 2008 are share-based compensation charges of £7.5 million: £0.5 million in cost of revenues, £5.0 million in research and development costs, £1.0 million in sales and marketing costs and £1.0 million in general and administrative costs.

Included within the IFRS income statement for the six months ended 30 June 2008 are total share-based payment costs of £7.7 million (H1 2007: £9.2 million; FY 2007: £18.3 million), allocated £0.5 million (H1 2007: £0.5 million; FY 2007: £1.1 million) in cost of revenues, £5.2 million (H1 2007: £5.4 million; FY 2007: £10.7 million) in research and development costs, £1.0 million (H1 2007: £1.8 million; FY 2007: £3.6 million) in sales and marketing costs and £1.0 million (H1 2007: £1.5 million; FY 2007: £2.9 million) in general and administrative costs.

Also included within IFRS operating costs for the six months ended 30 June 2008 is amortization of intangibles of £9.3 million (H1 2007: £9.8 million; FY 2007: £19.2 million), allocated £5.1 million (H1 2007: £5.1 million; FY 2007: £10.0 million) in research and development costs, £3.9 million (H1 2007: £4.4 million; FY 2007: £8.5 million) in sales and marketing costs and £0.3 million (H1 2007: £0.3 million; FY 2007: £0.7 million) in general and administrative costs.

(3) Accounts receivable

Included within accounts receivable at 30 June 2008 are £17.4 million (31 December 2007: £24.5 million) of amounts recoverable on contracts.

(4) Consolidated statement of changes in shareholders' equity (US GAAP)

	Share capital	Additional paid-in capital	Treasury stock	Retained earnings	Unrealized holding gain/(loss)	Cumulative translation adjustment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	672	367,680	(90,000)	234,455	(214)	(18,853)	493,740
Net income	-	-	-	18,051	-	-	18,051
Dividends	-	-	-	(15,267)	-	-	(15,267)
Tax effect of option exercises	-	(689)	-	-	-	-	(689)
Amortization of deferred compensation	-	6,733	-	-	-	-	6,733
Conversion of liability award to equity award	-	1,251	-	-	-	-	1,251
Issuance of shares from treasury	-	-	16,769	(13,051)	-	-	3,718
Purchase of own shares	-	-	(28,448)	-	-	-	(28,448)
<i>Other comprehensive income:</i>							
Realized holding losses on available-for-sale securities (net of tax of £84,000)	-	-	-	-	214	-	214
Unrealized holding losses on available-for-sale securities (net of tax of £nil)	-	-	-	-	(87)	-	(87)
Currency translation adjustment	-	-	-	-	-	809	809
At 30 June 2008	672	374,975	(101,679)	224,188	(87)	(18,044)	480,025

(5) Consolidated statement of comprehensive income (US GAAP)

	Q2 2008 £'000	Q1 2008 £'000	Q2 2007 £'000	H1 2008 £'000	H1 2007 £'000
Net income	9,109	8,942	8,847	18,051	18,424
Realized gain on available-for-sale security, net of tax	-	214	-	214	-
Unrealized holdings gains / (losses) on available-for-sale security, net of tax	(19)	(68)	(145)	(87)	(375)
Currency translation adjustment	(880)	1,689	(10,523)	809	(11,450)
Total comprehensive income / (loss)	8,210	10,777	(1,821)	18,987	6,599

(6) Segmental reporting (IFRS)

At 30 June 2008, the Group is organised on a worldwide basis into three main business segments:

Processor Division (PD), encompassing those resources that are centred around microprocessor cores, including specific functions such as graphics IP, fabric IP and embedded software.

Physical IP Division (PIPD), concerned with the building blocks necessary for translation of a circuit design into actual silicon.

Systems Design Division (SDD), focused on the tools and models used to create and debug software and system-on-chip (SoC) designs.

The following analysis is of revenues; operating costs; investment income; interest payable; profit/(loss) before tax, tax; profit/(loss) for the period; amortisation of other intangible assets and share-based payment costs for each segment and the Group in total. There have been no material changes to the segmental split of net assets since those disclosed in the 2007 annual report.

Business segment information

	Processor Division £000	Physical IP Division £000	Systems Design Division £000	Unallocated £000	Group £000
Six months ended 30 June 2008					
<i>Segmental income statement</i>					
Revenue	95,720	21,859	15,324	-	132,903
Operating costs	(58,651)	(32,178)	(19,320)	217	(109,932)
Investment income	-	-	-	1,251	1,251
Interest payable	-	-	-	(27)	(27)
Profit/(loss) before tax	37,069	(10,319)	(3,996)	1,441	24,195
Tax	-	-	-	(9,098)	(9,098)
Profit/(loss) for the period	37,069	(10,319)	(3,996)	(7,657)	15,097
<i>Other segmental items (included in operating costs above)</i>					
Amortisation of other intangible assets	616	7,343	1,366	-	9,325
Share-based payment cost	5,258	1,160	1,315	-	7,733

	Processor Division £000	Physical IP Division £000	Systems Design Division £000	Unallocated £000	Group £000
Six months ended 30 June 2007					
<i>Segmental income statement</i>					
Revenue	94,300	23,642	14,082	–	132,024
Operating costs	(58,928)	(32,377)	(20,518)	680	(111,143)
Investment income	–	–	–	2,977	2,977
Profit/(loss) before tax	35,372	(8,735)	(6,436)	3,657	23,858
Tax	–	–	–	(6,452)	(6,452)
Profit/(loss) for the period	35,372	(8,735)	(6,436)	(2,795)	17,406
<i>Other segmental items (included in operating costs above)</i>					
Amortisation of other intangible assets	616	7,531	1,611	–	9,758
Share-based payment cost	5,855	1,292	1,464	–	8,611

There are no inter-segment revenues. Unallocated operating costs are foreign exchange revaluation on monetary items, including cash and cash equivalents. Unallocated assets and liabilities include: cash and cash equivalents; short-term investments and marketable securities; some deferred tax balances; current tax and VAT.

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

(7) Summary of significant differences between US GAAP and IFRS

Goodwill Under both IFRS and US GAAP, goodwill is not subject to amortisation, but is tested at least annually for impairment. As permitted by IFRS 1, the Company's goodwill under IFRS has been frozen at the amount recorded under UK GAAP as at 1 January 2004. Under US GAAP, following the provisions of SFAS 142, "Goodwill and other intangible assets", the carrying value of goodwill was frozen at the amount recorded under previous US GAAP as at 1 January 2002. Under both previous US GAAP and UK GAAP, goodwill was amortised over its useful economic life. Thus, while ongoing accounting policies in respect of goodwill are similar under US GAAP and IFRS, the difference in the dates of transition means that different amounts of goodwill are recorded.

Under US GAAP, certain costs to be incurred on restructuring on business combination are treated as a fair value adjustment in the balance sheet acquired. Under IFRS, these costs are expensed post-acquisition. Additionally, under US GAAP, tax benefits arising from the exercise of options issued as part of the consideration for a business combination become a deduction to goodwill, only to the extent that those benefits do not exceed the fair value of the consideration relating to those options at the appropriate tax rate. Any excess tax benefits are a deduction to equity. Under IFRS, the full tax benefit is a deduction to equity.

Where provisional assessments of the fair values of assets and liabilities acquired on acquisition are refined, adjustments to fair values are recorded as prior year adjustments to goodwill under IFRS. Under US GAAP, such revisions are recorded as amendments to goodwill in the subsequent year.

Recognition and amortisation of intangibles The Company has taken advantage of the exemption under IFRS 1 not to apply IFRS retrospectively to business combinations occurring before 1 January 2004. This means that for business combinations occurring before this date, the previously reported UK GAAP treatment has continued to be followed. Under previous UK GAAP, intangible assets were recognised separately from goodwill only where they could be sold separately without disposing of a business of the entity. This separability criterion does not apply under either IFRS or US GAAP. Thus, a number of intangible assets which are required to be recognised separately from goodwill under both IFRS 3 and SFAS 142, were subsumed within goodwill under UK GAAP. Under both US GAAP and IFRS, such intangible assets are amortised over their useful economic lives. Except in relation to in-process research and development (see below), there is no difference in accounting policy for intangible assets recognised as a result of business combinations entered into after 1 January 2004.

In-process research and development Under IFRS, in-process research and development projects purchased as part of a business combination may meet the criteria set out in IAS 38, "Intangible assets", for recognition as intangible assets other than goodwill and are amortised over their useful economic lives commencing when the asset is brought into use. Under US GAAP, in-process research and development is immediately written-off to the income statement. This accounting policy difference gives rise to an associated difference in deferred tax.

Valuation of consideration on business combination Under both IFRS and US 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. Under IFRS, 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 IFRS 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 IFRS 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, other than to the extent necessary to eliminate any potential negative goodwill under US GAAP.

Deferred 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. This amount is charged to the income statement over the vesting period of the share options in accordance with FIN 28. Under IFRS, no such adjustment to shareholders' funds is made on acquisition. In accordance with FAS No. 123 (revised 2004) (FAS 123(R)), "Share-based payment", the unamortised balance has been transferred to additional paid-in capital.

Compensation charge in respect of share-based payments The Company issues equity-settled share-based payments to certain employees. In accordance with IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant, using the Black-Scholes pricing model. The fair value, determined at the grant date of the equity-settled share-based payments, is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

Under US GAAP, the Company also expenses share-based payments, including employee stock-options, based on their fair value in accordance with FAS 123(R). Some awards made by the Company are liability-classified awards under FAS 123(R) as either: (i) there is an obligation to settle a fixed monetary amount in a variable number of shares; or (ii) the award is indexed to a factor other than performance, market or service condition. The fair value of these awards is remeasured at each period end until the award has vested. Once the award has vested, or for (i) above when number of shares becomes fixed, the award becomes equity-classified.

Deferred tax on UK and US share options In the US and the UK, the Company is entitled to a tax deduction for the amount treated as employee compensation under US and UK tax rules on exercise of certain employee share options. The compensation is equivalent to the difference between the option exercise price and the fair market value of the shares at the date of exercise.

Under IFRS, deferred tax assets are recognised and are calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory tax rate, the excess is recorded directly in equity, against the retained earnings. In accordance with the transitional provisions of IFRS 2, no compensation charge is recorded in respect of options granted before 7 November 2002 or in respect of those options which have been exercised or have lapsed before 31 December 2004. Nevertheless, tax deductions have arisen and will continue to arise on these options. The tax effects arising in relation to these options are recorded directly in equity, against retained earnings.

Under US GAAP, deferred tax assets are recognised by multiplying the compensation expense recorded by the prevailing tax rate in the relevant tax jurisdiction. Where, on exercise of the relevant option, the tax benefit obtained exceeds the deferred tax asset in relation to the relevant options, the excess is recorded in additional paid-in capital. Where the tax benefit is less than the deferred tax asset, the write-down of the deferred tax asset is recorded against additional paid-in capital to the extent of previous excess tax benefits recorded in this account, with any remainder recorded in the income statement.

Employer taxes on share-based remuneration Under IFRS, employer's taxes that are payable on the exercise or vesting of share-based remuneration are provided for over the vesting period of the related option or award. Under US GAAP, such taxes are accounted for when the option or award is exercised or vests respectively.

Accrued legal costs Under IFRS, future legal fees that the Company is expecting to incur on current cases are accrued when the obligating event giving rise to the legal costs has occurred. Under US GAAP, such costs are charged to the income statement in the period in which the costs are incurred.

Available-for-sale investment impairment Accounting for impairments to available-for-sale investments is similar under both US GAAP and IFRS. However, because the relevant standards were applied to different accounting periods, an investment which was deemed to have suffered an other-than-temporary impairment in a prior period under US GAAP (with a corresponding charge being recognized in the income statement) was accounted for as a temporary impairment under IFRS (with the corresponding charge being recognized directly in reserves). In 2007, a further other-than-temporary impairment was made under both GAAPs with the result that the cumulative other-than-temporary impairments are now equal. Consequently a greater charge was made through the 2007 IFRS income statement, as the charge under IFRS included the amount previously deemed to be temporary under IFRS but other-than-temporary under US GAAP.

Reconciliation of IFRS profit to US GAAP net income	Six months	Six months	Year
	ended	ended	ended
	30 June	30 June	31 December
	2008	2007	2007
Unaudited	Unaudited	Audited	
	£'000	£'000	£'000
Profit for financial period as reported under IFRS	15,097	17,406	35,250
Adjustments for:			
Amortisation of intangibles	491	491	969
Deduct : US GAAP compensation charge in respect of all share-based payments	(7,010)	(8,504)	(15,979)
Add: IFRS compensation charge in respect of all share-based payments	7,733	8,611	16,786
Employer's taxes on share-based remuneration, net of tax	(311)	620	855
Provision for legal costs, net of tax	(106)	(238)	(609)
Provisions against available-for-sale investment	-	-	938
Tax on UK and US share options	(906)	(851)	(3,708)

Tax difference on amortisation of intangibles	(203)	(203)	(400)
Tax difference on share-based remuneration	3,266	709	3,517
Other tax differences	-	397	(838)
Foreign exchange on contingent consideration	-	(14)	61
Net income as reported under US GAAP	18,051	18,424	36,842

Reconciliation of shareholders' equity from IFRS to US GAAP

	30 June 2008 Unaudited £'000	31 December 2007 Audited £'000
Shareholders' equity as reported under IFRS	561,214	579,162
Adjustments for:		
Utilisation of restructuring provision	1,368	1,368
Cumulative difference on amortisation of goodwill	2,713	2,713
Cumulative difference on amortisation of intangibles	2,815	2,324
Cumulative write-off of in-process research and development	(4,692)	(4,692)
Valuation of equity consideration on acquisition	(82,435)	(82,435)
Valuation of option consideration on acquisition	17,476	17,476
Deferred compensation on acquisition	(9,579)	(9,579)
Liability-classified share awards	(674)	(1,649)
Employer's taxes on share-based remuneration	832	1,277
Provision for legal costs, net of tax	-	106
Cumulative difference on deferred tax	(1,496)	(1,426)
Deferred tax on share-based payments	(5,362)	(8,768)
Portion of tax benefit arising on exercise of options issued on acquisition taken to goodwill under US GAAP	(4,844)	(4,844)
Foreign exchange on valuation of intangible assets and deferred tax	2,689	2,707
Foreign exchange on valuation of contingent consideration	-	-
Shareholders' equity as reported under US GAAP	480,025	493,740

Reconciliation of goodwill from IFRS to US GAAP

	30 June 2008 Unaudited £'000	31 December 2007 Audited £'000
Goodwill as reported under IFRS	419,381	420,835
Adjustments for:		
Valuation of restructuring provision on acquisition	1,235	1,235
Cumulative difference on amortisation of goodwill	2,713	2,713
Separately identifiable intangible assets	(302)	(302)
Cumulative write-off of in-process research and development	(150)	(150)
Valuation of equity consideration on acquisition	(82,435)	(82,435)
Valuation of option consideration on acquisition	17,476	17,476
Contingent consideration	-	(1,339)
Portion of tax benefit arising on exercise of options issued on acquisition taken to goodwill under US GAAP	(4,248)	(4,248)
Deferred tax on capitalised in-process research and development	(1,570)	(1,570)
Deferred compensation on acquisition	(9,579)	(9,579)
Foreign exchange on revaluation of goodwill	2,141	2,027
Goodwill as reported under US GAAP	344,662	344,663

(8) Non-GAAP measures

The following non-GAAP measures, including reconciliations to the US 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 acquisition-related charges, stock-based compensation and restructuring charges and profit on disposal and impairment of available-for-sale investments. All figures in £'000 unless otherwise stated.

	(8.1) Q2 2008	(8.2) Q1 2008	(8.3) Q2 2007	(8.4) H1 2008	(8.5) H1 2007
Income from operations (US GAAP)	11,911	11,678	10,500	23,589	21,744
Restructuring costs	469	718	814	1,187	814
Acquisition-related charge – amortization of intangibles	4,404	4,430	4,612	8,834	9,267
Acquisition-related charge – other payments	115	45	209	160	606
Stock-based compensation and related payroll taxes	3,580	3,899	4,807	7,479	8,679
Normalised income from operations	20,479	20,770	20,942	41,249	41,110
As % of revenue	31.5%	30.6%	32.0%	31.0%	31.1%
	(8.6) Q2 2008	(8.7) Q1 2008	(8.8) Q2 2007	(8.9) H1 2008	(8.10) H1 2007
Income before income tax (US GAAP)	12,564	12,249	12,020	24,813	24,721
Restructuring costs	469	718	814	1,187	814
Acquisition-related charge – amortization of intangibles	4,404	4,430	4,612	8,834	9,267
Acquisition-related charge – other payments	115	45	209	160	606
Stock-based compensation and related payroll taxes	3,580	3,899	4,807	7,479	8,679
Normalised income before income tax	21,132	21,341	22,462	42,473	44,087
			(8.11) 30 June 2008	(8.12) 31 March 2008	(8.13) 31 December 2007
Cash and cash equivalents			50,450	55,191	49,509
Short-term investments			194	36	232
Short-term marketable securities			-	-	1,582
Normalised cash			50,644	55,227	51,323
	(8.14) Q2 2008	(8.15) Q1 2008	(8.16) Q2 2007	(8.17) H1 2008	(8.18) H1 2007
Normalised cash at end of period (as above)	50,644	55,227	108,938	50,644	108,938
Less: Normalised cash at beginning of period	(55,227)	(51,323)	(126,781)	(51,323)	(128,494)
Add back: Cash outflow from acquisitions (net of cash acquired)	1,450	931	689	2,381	3,307
Add back: Cash outflow from payment of dividends	15,267	-	8,013	15,267	8,013
Add back: Cash outflow from purchase of own shares	15,429	13,019	25,577	28,448	45,736
Less: Cash inflow from exercise of share options	(1,065)	(2,653)	(6,486)	(3,718)	(11,995)
Less: Cash inflow from sale of available-for-sale investments	-	(1,478)	-	(1,478)	-
Normalised cash generation	26,498	13,723	9,950	40,221	25,505
	(8.19) Q2 2008	(8.20) Q1 2008	(8.21) Q2 2007	(8.22) H1 2008	(8.23) H1 2007
Net income (US GAAP)	9,109	8,942	8,847	18,051	18,424
Restructuring costs	469	718	814	1,187	814
Acquisition-related charge – amortization of intangibles	4,404	4,430	4,612	8,834	9,267
Acquisition-related charge – other payments	115	45	209	160	606
Stock-based compensation and related payroll taxes	3,580	3,899	4,807	7,479	8,679
Estimated tax impact of above charges	(2,627)	(2,816)	(3,058)	(5,443)	(5,907)
Normalised net income	15,050	15,218	16,231	30,268	31,883
Dilutive shares ('000)	1,290,856	1,301,123	1,374,410	1,297,283	1,376,270
Normalised diluted EPS	1.17p	1.17p	1.18p	2.33p	2.32p

(8.24) Normalised income statement for Q2 2008

	Normalised £'000	Share- based compensation £'000	Normalised incl share- based compensation £'000	Intangible amortisation £'000	Other acquisition -related charges £'000	Restruct- uring charges £'000	US GAAP £'000
Revenues							
Product revenues	60,772	-	60,772	-	-	-	60,772
Service revenues	4,243	-	4,243	-	-	-	4,243
Total revenues	65,015	-	65,015	-	-	-	65,015
Cost of revenues							
Product costs	(5,358)	-	(5,358)	-	-	-	(5,358)
Service costs	(1,706)	(247)	(1,953)	-	-	-	(1,953)
Total cost of revenues	(7,064)	(247)	(7,311)	-	-	-	(7,311)
Gross profit	57,951	(247)	57,704	-	-	-	57,704
Research and development	(15,259)	(2,400)	(17,659)	-	(105)	-	(17,764)
Sales and marketing	(10,884)	(466)	(11,350)	-	(1)	-	(11,351)
General and administrative	(11,329)	(467)	(11,796)	-	(9)	-	(11,805)
Restructuring costs	-	-	-	-	-	(469)	(469)
Amortization of intangibles purchased through business combination	-	-	-	(4,404)	-	-	(4,404)
Total operating expenses	(37,472)	(3,333)	(40,805)	(4,404)	(115)	(469)	(45,793)
Income from operations	20,479	(3,580)	16,899	(4,404)	(115)	(469)	11,911
Interest	653	-	653	-	-	-	653
Income before income tax	21,132	(3,580)	17,552	(4,404)	(115)	(469)	12,564
Provision for income taxes	(6,082)	797	(5,285)	1,660	38	132	(3,455)
Net income	15,050	(2,783)	12,267	(2,744)	(77)	(337)	9,109
Earnings per share (assuming dilution)							
Shares outstanding ('000)	1,290,856		1,290,856				1,290,856
Earnings per share – pence	1.17		0.95				0.71
Earnings per ADS (assuming dilution)							
ADSs outstanding ('000)	430,285		430,285				430,285
Earnings per ADS – cents	6.96		5.67				4.21

(8.25) Normalised income statement for Q2 2007

	Normalised £'000	Share- based compensation £'000	Normalised incl share- based compensation £'000	Intangible amortisation £'000	Other acquisition -related charges £'000	Restruct- uring charges £'000	US GAAP £'000
Revenues							
Product revenues	61,215	-	61,215	-	-	-	61,215
Service revenues	4,317	-	4,317	-	-	-	4,317
Total revenues	65,532	-	65,532	-	-	-	65,532
Cost of revenues							
Product costs	(5,421)	-	(5,421)	-	-	-	(5,421)
Service costs	(1,351)	(285)	(1,636)	-	-	-	(1,636)
Total cost of revenues	(6,772)	(285)	(7,057)	-	-	-	(7,057)
Gross profit	58,760	(285)	58,475	-	-	-	58,475
Research and development	(15,469)	(2,796)	(18,265)	-	(195)	-	(18,460)
Sales and marketing	(10,472)	(958)	(11,430)	-	-	-	(11,430)
General and administrative	(11,877)	(768)	(12,645)	-	(14)	-	(12,659)
Restructuring costs	-	-	-	-	-	(814)	(814)
Amortization of intangibles purchased through business combination	-	-	-	(4,612)	-	-	(4,612)
Total operating expenses	(37,818)	(4,522)	(42,340)	(4,612)	(209)	(814)	(47,975)
Income from operations	20,942	(4,807)	16,135	(4,612)	(209)	(814)	10,500
Interest	1,520	-	1,520	-	-	-	1,520
Income before income tax	22,462	(4,807)	17,655	(4,612)	(209)	(814)	12,020
Provision for income taxes	(6,231)	887	(5,344)	1,778	68	325	(3,173)
Net income	16,231	(3,920)	12,311	(2,834)	(141)	(489)	8,847
Earnings per share (assuming dilution)							
Shares outstanding ('000)	1,374,410		1,374,410				1,374,410
Earnings per share – pence	1.18		0.90				0.64
Earnings per ADS (assuming dilution)							
ADSs outstanding ('000)	458,137		458,137				458,137
Earnings per ADS – cents	7.11		5.39				3.87

(8.26) Normalised income statement for H1 2008

	Normalised £'000	Share- based compensation £'000	Normalised incl share- based compensation £'000	Intangible amortisation £'000	Other acquisition- related charges £'000	Restruct- uring charges £'000	US GAAP £'000
Revenues							
Product revenues	124,589	-	124,589	-	-	-	124,589
Service revenues	8,314	-	8,314	-	-	-	8,314
Total revenues	132,903	-	132,903	-	-	-	132,903
Cost of revenues							
Product costs	(11,158)	-	(11,158)	-	-	-	(11,158)
Service costs	(3,478)	(515)	(3,993)	-	-	-	(3,993)
Total cost of revenues	(14,636)	(515)	(15,151)	-	-	-	(15,151)
Gross profit	118,267	(515)	117,752	-	-	-	117,752
Research and development	(31,571)	(5,016)	(36,587)	-	(143)	-	(36,730)
Sales and marketing	(21,932)	(974)	(22,906)	-	1	-	(22,905)
General and administrative	(23,515)	(974)	(24,489)	-	(18)	-	(24,507)
Restructuring costs	-	-	-	-	-	(1,187)	(1,187)
Amortization of intangibles purchased through business combination	-	-	-	(8,834)	-	-	(8,834)
Total operating expenses	(77,018)	(6,964)	(83,982)	(8,834)	(160)	(1,187)	(94,163)
Income from operations	41,249	(7,479)	33,770	(8,834)	(160)	(1,187)	23,589
Interest	1,224	-	1,224	-	-	-	1,224
Income before income tax	42,473	(7,479)	34,994	(8,834)	(160)	(1,187)	24,813
Provision for income taxes	(12,205)	1,638	(10,567)	3,332	54	419	(6,762)
Net income	30,268	(5,841)	24,427	(5,502)	(106)	(768)	18,051
Earnings per share (assuming dilution)							
Shares outstanding ('000)	1,297,283		1,297,283				1,297,283
Earnings per share – pence	2.33		1.88				1.39
Earnings per ADS (assuming dilution)							
ADSs outstanding ('000)	432,428		432,428				432,428
Earnings per ADS – cents	13.93		11.24				8.31

(8.27) Normalised income statement for H1 2007

	Normalised £'000	Share- based compen- sation £'000	Normalised incl share- based compen- sation £'000	Intangible amortisa- tion £'000	Other acquisition -related charges £'000	Restruct- -uring charges £'000	US GAAP £'000
Revenues							
Product revenues	123,515	-	123,515	-	-	-	123,515
Service revenues	8,509	-	8,509	-	-	-	8,509
Total revenues	<u>132,024</u>	<u>-</u>	<u>132,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,024</u>
Cost of revenues							
Product costs	(11,059)	-	(11,059)	-	-	-	(11,059)
Service costs	(2,709)	(517)	(3,226)	-	-	-	(3,226)
Total cost of revenues	<u>(13,768)</u>	<u>(517)</u>	<u>(14,285)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,285)</u>
Gross profit	<u>118,256</u>	<u>(517)</u>	<u>117,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,739</u>
Research and development	(32,058)	(5,042)	(37,100)	-	(357)	-	(37,457)
Sales and marketing	(21,604)	(1,732)	(23,336)	-	-	-	(23,336)
General and administrative	(23,484)	(1,388)	(24,872)	-	(249)	-	(25,121)
Restructuring costs	-	-	-	-	-	(814)	(814)
Amortization of intangibles purchased through business combination	-	-	-	(9,267)	-	-	(9,267)
Total operating expenses	<u>(77,146)</u>	<u>(8,162)</u>	<u>(85,308)</u>	<u>(9,267)</u>	<u>(606)</u>	<u>(814)</u>	<u>(95,995)</u>
Income from operations	41,110	(8,679)	32,431	(9,267)	(606)	(814)	21,744
Interest	2,977	-	2,977	-	-	-	2,977
Income before income tax	44,087	(8,679)	35,408	(9,267)	(606)	(814)	24,721
Provision for income taxes	(12,204)	1,824	(10,380)	3,574	184	325	(6,297)
Net income	<u>31,883</u>	<u>(6,855)</u>	<u>25,028</u>	<u>(5,693)</u>	<u>(422)</u>	<u>(489)</u>	<u>18,424</u>
Earnings per share (assuming dilution)							
Shares outstanding ('000)	1,376,270		1,376,270				1,376,270
Earnings per share – pence	2.32		1.82				1.34
Earnings per ADS (assuming dilution)							
ADSs outstanding ('000)	458,757		458,757				458,757
Earnings per ADS – cents	13.94		10.95				8.06

Statement of directors' responsibilities

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of ARM Holdings plc are listed in the ARM Holdings plc Annual Report for the year ended 31 December 2007.

By order of the Board

Tim Score
Chief Financial Officer
30 July 2008