RESCAN

Company registration number: 02557590 (England and Wales)

Arm Limited
Annual Report and Consolidated Financial Statements
For the Year Ended 31 March 2020

31/3/21

166

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Arm Limited

Contents

Arm Limited
Strategic Report

The directors present their strategic report for the Arm Limited Group ("the Group", "Arm") for the year ended 31 March 2020. The Group comprises Arm Limited ("the Company") and its subsidiary undertakings.

Review of the business

The principal operations and activities of the Group are the licensing, marketing, research and development of microprocessors, system intellectual property (IP), graphics processors, physical IP and associated systems IP, software and tools, and software related to managed services for the Internet of Things (IoT).

The Group's revenues for the year ended 31 March 2020 were £1,491.5 million (2019: £1,388.0 million) comprising income from licensing, royalties, development tools and services.

Total operating costs for the year ended 31 March 2020 were £1,457.9 million (2019: £1,312.7 million). The increase in costs is primarily attributable to developing supporting infrastructure in order to assist the acceleration of investment in R&D so that Arm can develop new technologies more quickly.

Profit before tax for the year ended 31 March 2020 was £51.4 million (2019: £1,283.2 million). The decrease is primarily due to the net outcome following the partial sale of Arm's subsidiary in China ("Arm China") on 26 June 2018 to create a joint venture with a consortium of local Private Equity investors. The sale of 51% of Arm China generated £592.5 million of cash and resulted in an increase of £594.8 million to the Group's investments in associates and joint ventures due to revaluation of the remaining 49% of Arm China assets.

Excluding the effect of the partial Arm China sale and revaluation, Arm's profit before tax for the year ended 31 March 2020 declined year on year. The decline in the Group's profit is the result of a planned multi-year strategy, following the acquisition of the Group by SoftBank, to significantly increase investment in the development of new technology. The Group expects these new technologies will lead to increased revenue growth in the future. The Group can then decide whether to reinvest these new revenues in developing new technology or to allow the increased revenues to feed through to increased profits.

At 31 March 2020 the Group had total cash, short-term deposits and long-term deposits of £895.1 million (2019: £1,067.7 million) and total net assets of £3,472.8 million (2019: £3,462.8 million).

On 13 September 2020 NVIDIA Corporation signed a definitive agreement to acquire a controlling shareholding in Arm Limited from SoftBank Group Corp.

Key performance indicators

The Group's strategy enables key growth drivers that are measured on a regular basis:

Building the base of licences that will drive future royalties: The Group mainly licenses its technology to semiconductor companies. Every licence represents the opportunity for a future royalty stream. During the year ended 31 March 2020 the Group signed 147 licences (2019: 125). Customer's interest in licensing Arm technology was robust in 2019, although the first half of 2019 saw an overall slowdown in the semiconductor industry leading to weaker royalty revenue in the year. The industry slowdown was, in part due to uncertain macroeconomic conditions, and 2020 was expected to be a recovery year for the industry, until the disruption caused by the COVID-19 pandemic (see *Impact of COVID-19 on Arm's business performance, industry, and market opportunity*).

Increasing share in target end markets: During the year ended 31 March 2020 the Group's customers reported around 22.8 billion chips shipped (2019: 22.5 billion).

Key performance indicators (continued)

This year-on-year increase is smaller than in prior years due to the slowdown mentioned above, however Arm's market share continue to increase to 34% for the year ended 31 March 2020 (2019: 33%) demonstrating the Group's continuing relevance to equipment manufacturers as they choose Arm-based chips over chips containing proprietary processor designs.

Investing in the Group's people and systems: Our people design our products, deliver them to our customers, and support the ecosystem of Partners which brings that technology to market. Our goal is to attract talent from graduates to seasoned industry experts. We invest in our people, developing them and providing a supportive culture to maximise their capability and potential. During the year ended 31 March 2020 the Group had an average of 6,334 employees (2019: 5,908). Overall, most new joiners were engineers thus increasing the Group's research and development capability.

Impact of COVID-19 on Arm's business performance, industry, and market opportunity

Arm and the majority of its customers were impacted by COVID-19 only in the last few weeks of the year ended 31 March 2020. Outside of China, most countries introduced national lockdowns in March 2020. Group revenues were impacted due to a slow-down of licensing activity as Arm's customers adapted their operations (working-from-home, travel restrictions, etc.) and changes to end-demand as factories closed and shopping moved online.

The situation posed by COVID-19 is evolving rapidly. At the time of writing, most Arm employees are working from home and Arm's operations are continuing close to normal. Due to the global impact of COVID-19, some of Arm's target end-markets (such as automotive electronics) are seeing a significant reduction in demand, whilst others (such as 5G networking equipment and data centre equipment) have seen an increase in activity. Arm's operating expenses are likely to benefit from a reduction in employee travel, conference attendance and marketing events. Given the uncertainty, it is not possible to anticipate the net impact on Arm's revenues and profits.

Principal risks and uncertainties

The Group has a robust risk management and internal control processes in place to identify key risks; assign ownership for each risk at a senior management level; identify both existing and planned management activities to mitigate each risk; assess the residual likelihood and impact of each risk; and ensure ongoing monitoring and reporting of each key risk. These risk management and internal control processes have remained in place for the period under review including up until the approval of this report. The principal risks and uncertainties of the Group, which include those of the Company, are:

A change in the industry business dynamic may lead to loss of market share and/or reduction in value of Intellectual Property, or a competitor's product or technology may lead to loss of market share

The Group's technologies and services face significant competition. It is expected that competition will increase as current competitors expand their product offerings, improve their products or reduce the prices of their products as part of a strategy to maintain existing business and customers or attract new business and customers, as new opportunities develop, and as new competitors enter the industry. Competition in the industry is affected by various factors that include, among others: original equipment manufacturer concentrations; vertical integration; changes in customer demand, consumption and competition in certain geographic regions; government intervention or support of national industries or competitors; evolving industry standards and business models; evolving nature of computing; the speed of technological change (including the transition to smaller geometry process technologies); value-added features that drive selling prices and consumer demand for end-products etc.

Principal risks and uncertainties (continued)

Arm continues to invest in research and development to ensure technologies continue to offer innovative solutions to customers with multiple features and that drive both performance and lower power consumption.

The current pandemic could continue to disrupt supply chains and reduce global demand for electronic products, leading to smaller end-markets and increased price competition

The rapid, global spread of COVID-19 has resulted in significant economic uncertainty, significant declines in business and consumer confidence and global demand, a global economic slowdown, and could lead to a global recession. Government policies and other preventive and precautionary measures that Arm, other businesses and governments have implemented to limit the spread of COVID-19, including but not limited to travel bans and restrictions, quarantines, shelter-in-place and social distancing orders, declarations of states of emergency and shutdowns, have exacerbated these issues and we expect will continue to do so, at least in the short term. The pandemic may result in a decline in demand for smartphones and other consumer devices sold by customers or licensees which in turn may result in decreased demand for the integrated circuit products which are incorporated into such devices. Such declines in demand for integrated circuit products may result in a decrease in the royalties and license revenue earned on intellectual property.

As part of the Group's mitigation strategy related to the virus, Arm has implemented work-from-home rules at several facilities which remains in place at the date of these financial statements. Arm has discouraged its employees from undertaking non-critical business travel worldwide. Additionally, the Group has cancelled or curtailed its participation in various international trade shows. Further, Arm has implemented cost management policy while the management continues to actively monitor the impact of the pandemic on the business.

Significant concentration in customer base, such that the loss of a small number of key customers could significantly impact the Group's growth

In the year ended 31 March 2020 Arm derived approximately 80% of total net revenue from fewer than 20 customers. We expect this trend of customer concentration of revenue to continue in the foreseeable future.

Arm continually assesses opportunities to broaden its customer base and increase penetration with existing customers through its innovative products, business model and customer support.

The Group could become a victim of a cyber-attack or an on-line attempt to defraud the Group

Security breaches, computer malware, phishing, and cyber-attacks have become more prevalent and sophisticated in recent years. These threats are constantly evolving, making it increasingly difficult to successfully defend against them or implement adequate preventative measures. Experienced computer programmers, hackers and employees may penetrate security controls and misappropriate or compromise confidential information, including that of employees or third parties. These attacks may create system disruptions or cause shutdowns. These hackers may also develop and deploy viruses, worms and other malicious software programs that attack or otherwise exploit security vulnerabilities in the Group's products. For portions of Arm's IT infrastructure, including business management and communication software products, the Group relies on products and services provided by third parties. These providers may also experience breaches and attacks to their products which may impact Arm's systems. Data security breaches may also result from non-technical means, such as actions by an employee with access to the Group's systems. Actual or perceived breaches of security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about Arm, its partners, customers or third parties could expose the Group and the parties affected to a risk of loss or misuse of this information, resulting in litigation and potential liability, paying damages, regulatory inquiries or actions, damage to brand and reputation or other harm to the business.

Principal risks and uncertainties (continued)

Arm undertakes periodic trainings for its employees to maintain cybersecurity awareness and maintains a suite of IT tools that help prevent and detect cyber-attacks.

The Group may have to defend itself against third parties who claim that Arm has infringed their proprietary right

Arm's success and ability to compete depend significantly on protecting its intellectual property. Litigation brought to protect and enforce Arm's intellectual property rights could be costly, time-consuming, and distracting to the Group's business operations and could result in the impairment or loss of portions of Arm's intellectual property.

The Group maintains and supports an active programme to protect its intellectual property, primarily through the filing of patent applications and the defence of issued patents against infringement.

The Group may have difficulty in attracting and retaining quality engineering personnel which could limit the Group's research and development capability

Arm's future success depends largely upon the continued service of key management and technical personnel, and on the ability to continue to identify, attract, retain and motivate them. Implementing the Group's business strategy requires specialised engineering and other talent, as Arm's revenues are highly dependent on technological and product innovations. The market for employees in the industry is very competitive. A number of competitors for talent are significantly larger than the Group and may be able to offer compensation in excess of what Arm is able to offer. Further, existing immigration laws in certain countries can make it more difficult for the Group to recruit and retain highly skilled foreign nationals.

Arm's recruitment, compensation, talent development and performance assessment programmes are designed to help attract and retain quality engineering and management personnel.

The Group could suffer a loss of revenue, or an increase in costs, as a result of the impact of geopolitical factors, such as international trade disputes, which limit the Group's ability to transact with customers in certain jurisdictions

Arm's revenue is generated from customers located in several jurisdictions and a substantial portion of assets and employees are located in the UK and US. Risks associated with international operations, any of which could have a material adverse effect on business, liquidity, financial condition and/or results of operations, include:

- political instability, and the possibility of a deteriorating relationship between the nations in which Arm does business;
- the imposition of new or modified international trade restrictions, tariffs, import and excise duties or other taxes which may impact end customer demand or disrupt supply chains;
- import and export requirements, including restrictions on sales to certain end customers;
- restrictions on foreign ownership and investments;
- restrictions on repatriation of cash;
- changes in local political, economic, social and labour conditions;
- a less developed and less certain legal and regulatory environment in some countries, which, among other things, can create uncertainty regarding contract enforcement, intellectual property rights and liability issues;
- inadequate levels of compliance with applicable anti-bribery laws, including the Foreign Corrupt Practices Act, the UK Bribery Act of 2010

Principal risks and uncertainties (continued)

Any changes to the international trading system, or the emergence of an international trade dispute, could significantly impact the Group's business and have a negative impact on revenues. For example, the current US tariffs on China-origin goods and the related geopolitical uncertainty between the US and China have caused, and may continue to cause, decreased demand for products that include Arm's technologies, which could have a material adverse effect on business, liquidity, financial condition, and/or results of operations.

Arm has installed a compliance programme to ensure adherence to various trade laws.

Future developments

The Group's stated objective is to establish a global standard for its technology in the semiconductor market and to grow new businesses in adjacent areas, such as in the Internet of Things (IoT). The directors believe that to achieve this goal it is important to expand the number and range of potential customers for its technology. The Group intends to enter into licence agreements with new customers and to increase the range of new technologies supplied to existing customers. Relationships will continue to be established with third-party tools and software vendors to ensure that their products will operate with the Group's products. Because of its position in the technology industry, the Group is presented with many opportunities to acquire complementary technology or resources and it intends to continue to make appropriate investments and acquisitions from time to time.

The Group intends to maintain investments at an elevated level for the next few years. To that end, the Group intends to re-invest all revenues into long term R&D programmes, inevitably leading to increased costs and low, or no, profits. As revenue can be variable, especially licence revenue, in some periods the Group could report a loss. Following a period of higher investments, the Group expects that the newly developed technologies will drive new revenue growth, providing the potential for increased profits and cash generation in the future.

Section 172(1) statement

In this section, the directors report how they have discharged their duties under Section 172(1) of the Companies Act 2006 during the year ended 31 March 2020. The board has identified the Company's key stakeholders and monitors related engagement activity, as reported in the section entitled "Corporate Governance Report – Principle 6". The board regularly receives reports from internal committees, as well as regular briefings by the Chief Executive on key stakeholder engagement. This regular reporting helps the board to carry out its duties and establishes a healthy system of internal controls, a steady flow of information to the board, and appropriate governance and risk management oversight. Further details of the Company's committees have been provided in the section below entitled "Corporate Governance Report – Principle 3".

While day-to-day responsibility for operating the Company rests with the Chief Executive and the Executive Committee, the board retains oversight and makes key decisions on certain reserved matters. Reserved matters include matters that have a material impact upon the Company and the wider Group relating to, but not limited to, strategy, structure and capital allocation, financial reporting and controls, material contracts and investments, board membership, other senior appointments and remuneration. For each reserved matter which comes before the board, the interests of stakeholders who might be affected are considered as part of the board's decision-making process.

Set out below is a further discussion of how the board had regard to the factors (a) to (f) under Section 172(1) in its decision making during the year ended 31 March 2020.

Section 172(1) statement (continued)

Section 172(1) Factor	Board decisions / activities
(a) The likely consequences of any decision in the long-term and (e) The desirability of the company maintaining a reputation for high standards of business conduct	The board develops and agrees an annual budget as well as the Company's strategic long-term goals under a 10-year plan, with due consideration to long-term effects and external factors such as competition, economic, political, technological developments and market conditions. The Chief Executive, the Executive Committee and other internal committees provide detailed reports and analyses to the board, including data on the operational and financial performance of the Company, which (i) facilitate the board's decision-making and consideration of associated long-term effects; and (ii) enable the board to monitor Company performance and implementation of strategic objectives. Please see the section below entitled *"Corporate Governance Report – Principle 3"* for details of how the board considers these matters with appropriate oversight. In order to maintain high standards of business conduct, through the leadership and oversight of the board, the Company has implemented, maintains, and monitors compliance with various policies detailed in the section below entitled *"Corporate Governance Report – Principle 3"*. In addition, gender pay gap is an area of active focus for the Company, and accordingly, pay equity analysis is undertaken each year which identifies irregularities for consideration and action. In the year ended 31 March 2020, the Company was distinguished as one of the 2020 World's Most Ethical Companies by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices. The Company has been recognised as one of only four honourees in the electronics and semiconductor industry and one of 132 companies globally that earned the distinction.
(b) The interests of the Company's employees	The board fully recognises the importance of the Company's workforce, and all employees are actively encouraged to provide feedback, report concerns and raise questions. Interactive engagement with the workforce is foundational to the Company's Vision, Mission and Core Beliefs, which are promoted by the board and cascaded to management and across the workforce. Please see the section below entitled *"Corporate Governance Report – Principle 6"* for details of key employee engagement activities during the year ended 31 March 2020.
(c) The need to foster the Company's business relationships with suppliers, customers and others	At each scheduled board meeting, the board reviews key engagement activities with and feedback from the Company's key stakeholders which includes customers, suppliers, employees and relevant public organisations. The interests of stakeholders who might be affected by key decisions are carefully considered as part of the board's decision-making process. Please see the section below entitled *"Corporate Governance Report – Principle 6"* for details of key stakeholder engagement activities during the year ended 31 March 2020.

Arm Limited
Strategic Report (continued)

Section 172(1) statement (continued)

Section 172(1) Factor	Board decisions / activities
(d) The impact of the Company's operations on the community and environment	The board has continued to advocate the ongoing collaboration with global intergovernmental organisations in delivering the 'improving lives' element of their sustainability strategy. With UNICEF and WHO, the Company has focused on delivering technology-based solutions to improve lives. With UN Global Compact, the Company has focused on advocating and communicating its commitment to the Ten Principles in the areas of human rights, labour rights, the environment and anti-corruption. During the year ended 31 March 2020, the Company has held regular meetings and dialogue to monitor progress with ongoing sustainability projects, including contributing to the UN Secretary General's principles on Artificial Intelligence. The board takes very seriously the Company's local community support through philanthropic contributions and community projects. These are co-ordinated by TeamArm, which is the Company's employee volunteering initiative and, to date, the Company's employees globally gave more than 35,000 hours to local communities through volunteering. TeamArm also launched the Global Goals Immersion Programme: a unique opportunity for employees to develop valuable skills while volunteering for one to two weeks with some of the Company's sustainability partners in developing countries.
(f) the need to act fairly as between members of the company	The Company has two shareholders who are represented at the board by non-executive directors appointed by them. By virtue of such representation: (i) the shareholders are treated with transparency and integrity in terms of information and reporting, and (ii) the shareholders benefit from direct interaction and engagement with the board and the Executive Committee, ensuring that their views and interests are considered fairly during board meetings.

Arm Limited
Strategic Report (continued)

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Management acknowledge the significant economic impact of COVID-19 pandemic and the additional level of uncertainty it has introduced, however forecasts prepared to support the going concern assumption represent management's best estimates of future events with sufficient headroom to conclude a going concern assumption without a material level of uncertainty.

It is expected that the proposed acquisition of the Group by NVIDIA Corporation will consummate more than 12 months after the date of signing of these financial statements. Consequently, management does not presently expect the said intended transaction to have any material implication on the Group's going concern assessment as at the date of signing of these financial statements.

Approved by the Board and signed on its behalf by:

G Budd
President and Chief Operating Officer

Date 22 OCTOBER 2020

The directors present their annual report and the audited financial statements for the year ended 31 March 2020.

Future developments

Details of future developments can be found in the Strategic Report.

Events after the balance sheet date

Details of significant events after the balance sheet date are disclosed in note 36.

Research and development

Development of IP is at the heart of the Group's activities and the majority of the Group's workforce is employed in engineering activities. Within this, research and development ("R&D") is of major importance and, as part of its research activities, the Group collaborates closely with universities worldwide.

Key areas of product development include the development of further energy-efficient, high-performance processors. The Group is investing in future physical IP development including low-power, low-leakage technologies for a range of chip manufacturing processes, to ensure leadership in this market. In addition, the Group will continue to develop and deliver tools, graphics processors and system IP to enable its customers to design and program SoCs ("System on Chip"). The Group is also investing in the development of technology related to its new Internet of Things Software-as-a-Service (SaaS) business to support companies managing large and complex networks of connected devices.

The income statement charge for the year ended 31 March 2020 for R&D was £672.7 million (2019: £655.7 million).

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts to hedge foreign currency exchange rate risk.

The majority of interest-bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Credit risk

The Group's principal financial assets are bank balances, and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of expected credit losses.

Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Other than certain balances with Arm China, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Group's policy is to maintain balances of cash and cash equivalents, and short- and long-term deposits and similar instruments, such that the highly liquid resources exceed the Group's projected cash outflows at all times.

Dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2020 (2019: £nil). It is the intent of the directors to reinvest excess cash into internal growth projects, R&D or to be utilised for investment opportunities.

Directors

The directors, who served during the year and up to the date of approval of the financial statements, unless stated otherwise, were as follows:

Y Al-Rumayyan

G Budd

M Claure

R Fisher

M Muller (resigned 11 September 2019)

A Sama (resigned 22 April 2019)

S Segars

M Son

Directors' indemnities

The Company made qualifying third-party indemnity provisions for the benefit of its directors during the year and these remain in force at the date of this report.

Arm Limited
Directors' Report (continued)

Employees

Employee involvement in the Company is encouraged to achieve a common awareness on the part of all employees of the financial and economic factors that affect the performance of the Company. Further details of the Company's employee engagement activities have been provided in the section above entitled "Corporate Governance Report – Principle 6 – Stakeholders".

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, sexual orientation, marital or civil partner status, gender reassignment, race, colour, nationality, ethnic or national origin, religion or belief, disability or age.

Engagement with suppliers, customers and others

Information in respect of how the Group engages with suppliers, customers and others is contained within the Statement of Corporate Governances Arrangements.

Energy and Carbon

As required by the Streamlined Energy and Carbon Reporting (SECR) which came into place on 1 April 2019, the Group has identified its energy and carbon usage in the year ended 31 March 2020 (FY2019) as follows:

The Group have reported on all sources of GHG emissions and energy usage as required under *The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* as amended.

Energy Usage

Energy Use (mWh)	**Year ended 31 March 2020 (FY2019)**
Transport[1]	321.6
Electricity	13,077
Gas Oil	N/A
Natural Gas	5,138
Total	18,536.6

Carbon Emissions

CO2 Emissions (tCO2e)	**Year ended 31 March 2020 (FY2019)**
Emissions from combustion of gas (Scope 1)	255
Emissions from combustion of fuel for transport purposes[2] (Scope 1)	1.7
Emissions from electricity purchased for own use, including for the purposes of transport (Scope 2)	620
Emissions from business travel in Company-owned vehicles or employee-owned vehicles where company is responsible for purchasing the fuel[3] (Scope 3)	78
Total	954.7

[1] Excludes hire vehicles.
[2] Includes Company owned vehicles only.
[3] Excludes hire vehicles.

Energy and Carbon (continued)

Intensity Ratio

CO2 Emissions (tCo2e)	Year ended 31 March 2020 (FY2019)
Emissions from Electricity and Gas (premises related only) per Full Time Employee (FTE)	0.24

Methodology

Energy figures are based on data from all UK sites[4] and includes electricity and gas where applicable. Output is in Mega Watt Hours (mWh).

The carbon emissions figures are calculated in accordance with the Greenhouse Gas (GHG) Protocol and outputs are in tCO_2e using the most up-to-date conversions factors from the Department of Business, Energy & Industrial Strategy (BEIS). Carbon emission figures are premise-related only (gas and electricity) and Market Based figures are used where applicable. We have followed the 2019 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2020 to calculate the above disclosures.

Arm uses a Sustainability Reporting portal by Ecometrica to calculate emission figures. Please refer to: https://ecometrica.ourimpacts.com

Energy Efficiency Measures

The Company introduced several measures during FY2019 for the purpose of increasing energy efficiency as listed below:

- Manual control set backs across Cambridge building management system (BMS) during COVID-19 lockdown period
- Introduction of new energy meters across several UK offices onto the Verdigris platform
- Installation of close control BMS in Belfast and Glasgow
- New boiler installation in Arm 6 office building in Cambridge
- New air handling unit (AHU) installation and upgrade in Arm 3 office building in Cambridge
- Smart lighting in installation in Belfast and Glasgow
- Installation of new EV charging stations in UK
- Gateway BMS pilot in Cambridge, utilising the Honeywell Forge Platform
- Mobilisation of 3 new Leadership in Energy & Environmental Design (LEED) accredited buildings, and 2 properties currently going through the WELL standard

[4] Arm has no UK offshore sites.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

• so far as the director is aware, there is no relevant audit information of which the Company's and the Group's auditor is unaware; and

• the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's and the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

G Budd

G Budd
President and Chief Operating Officer

Date: 22 OCTOBER 2020

Arm Limited
Corporate Governance Report

The directors have considered the Companies (Miscellaneous Reporting) Regulations 2018 (the **Regulations**) and have decided that applying and reporting against The Wates Corporate Governance Principles for Large Private Companies (the **Wates Principles**) is the most appropriate way to comply with the requirements of the Regulations. In addition, doing so allows the directors to report the steps they have taken to have regard to all relevant factors prescribed by Section 172(1) of the Companies Act 2006.

During the year ended 31 March 2020, the directors reviewed the Company's existing corporate governance practices. The directors explored the extent to which the Company already applies the Wates Principles, and identified where corporate governance practices could be improved through careful planning and phased implementation. The directors believe that the Company has made meaningful progress during the year ended 31 March 2020. Going forward, the directors will continue to review and challenge how the Company can improve its application of the Wates Principles and engagement with its stakeholders.

Principle 1 – Purpose and Leadership

The Company's Vision and Mission are set out in statements which have been communicated and adopted by the Company and across the wider Group. These statements fundamentally inform and drive the long-term decision making of the Company:

- Vision: technology that invisibly enables opportunity for a globally connected population.
- Mission:
    - to deploy secure, energy efficient Arm-based technology wherever computing happens;
    - to securely connect and manage the world's devices and data; and
    - to use Arm partnership business model to ensure Arm technology helps to realise the Global Goals[5].

In addition, the Company's values and culture are captured in a single set of "Core Beliefs" which are communicated and applied by the Company and across the wider Group on an ongoing basis:

- 'We, not I' – this means collaboration first, egos last.
- 'Passion for progress' – this refers to innovation that enables Arm's ecosystems, Arm and its people to thrive.
- 'Be your brilliant self' – this is exemplified by skilful individuality, performance and fulfilment.

The board recognises that the Company's Values, Strategy and Culture require ongoing review and improvement through regular engagement with the workforce. This is done through various employee engagement channels described below in *"Principle 6 – Stakeholders"*, and they allow the board to monitor culture, maintain unity under a single set of principles and helps the board to deliver effective leadership and direction, and ultimately increase the competitive advantage of the Company.

Principle 2 – Board Composition

The board consists of four non-executive directors and two executive directors, as listed in the section below entitled *"Directors' Report – Directors"*. There are currently no independent directors. The non-executive directors represent the equity interests of the shareholders of the Company. The shareholders conduct their own internal assessment of director performance and make all director nominations and, as such, a nominations committee is not regarded as necessary at this stage. The board will continue to assess the merits of a nominations committee to oversee board composition and director performance as the Company continues to develop.

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[5] Officially known as the UN Goals for Sustainable Development.

Principle 2 – Board Composition (continued)

The Company has a separate Chairman and Chief Executive, which helps ensure an appropriate division of responsibility, accountability and decision-making within the board. The directors have equal voting rights and they have access to the advice and services of a company secretary and other professional support. Briefings on a wide range of topics are provided to the directors, including Code of Conduct, Anti-trust, Anti-bribery and Corruption, with additional information and training provided upon request.

Directors are nominated and appointed to the board by the shareholders of the Company who primarily consider a candidate's skillset, experience and suitability for the role. There is a broad range of ethnic diversity and diversity of experience amongst board members, but it is recognised that there is a lack of gender diversity on the board of the Company and this is an area which the board will be looking to address.

Principle 3 – Directors' Responsibilities

To ensure appropriate board oversight, the board schedules regular meetings at which it reviews the key aspects of the business including financial performance, strategy, market conditions and prospects, risks and opportunities, operational matters, workforce, health and safety, sustainability, all supported by key performance indicators. Financial information is collated from the Company's accounting systems and information is managed by the Company's dedicated finance function. Processing and reporting of data as well as financial controls are closely monitored by the Company's audit function under the Audit Committee's supervision.

The Chief Executive, the Executive Committee and other committees provide detailed reports and analyses to the board, including data on financial performance, KPIs, and the output of key stakeholder engagement. In advance of each board meeting, the Chief Executive and General Counsel prepare a board pack which includes pre-read materials prepared by executive management teams. There is open and informed discussion during board meetings which is regularly supported by presentations to the board by senior management.

While the board delegates an appropriate level of authority to the Executive Committee and other internal committees, key decisions are reserved for the board of the Company as described in the section above entitled "*Strategic Report – Section 172 Companies Act 2006*".

Day-to-day operational responsibility rests with the Chief Executive and the Executive Committee which includes the Chief Operating Officer, Chief Financial Officer and other senior officers from across the business functions. Each Executive Committee member possesses the expertise and skills required for their role and there is a good balance of gender and ethnic diversity.

In addition, there are a number of other committees which oversee different areas of the Company's governance. The first three in the list below are board-constituted committees which are attended primarily by certain members of the board, and others are established by the executive management and are attended by the Executive Committee members and other senior employees:

- Audit Committee
- Remuneration Committee
- Sub-Committee (for conducting and approving administrative matters on behalf of the board)
- Executive Committee
- Compliance Committee
- Risk Review Committee
- Investment Committee

Principle 3 – Directors' Responsibilities (continued)

In order to maintain high standards of business conduct, through the leadership and oversight of the board, the Company has implemented, maintains, and monitors compliance with, various policies relating to the internal affairs of the Company and the wider Group, including but not limited to:

- Code of Conduct
- Supplier Code of Conduct
- Anti-Bribery & Corruption Policy
- Whistleblowing Policy

Principle 4 – Opportunity and Risk

Opportunity

The Company has a well-developed system for identifying opportunities to promote the long-term sustainable success of the Group. The Executive Committee provides regular updates to the board regarding commercial and technological developments. These updates from the Executive Committee enable informed and dynamic discussion and decision-making by the board.

Risk

The Company has put in place internal control processes to manage and mitigate risk, including through the operation of key governance committees:

- The Audit Committee consists of a non-executive director of the Company and two executives of other companies within the SoftBank Group (other than the Company). It oversees the performance of the Group's internal audit function and controls, as well as meeting with and receiving reports from the external auditor and executive management.

- The Risk Review Committee consists of Executive Committee members and business unit leads. It oversees the risk appetite of the Group, the risk management framework and controls, and the governance structures that supports it.

- The Compliance Committee consists of Executive Committee members and business unit leads. It is responsible for monitoring and ensuring compliance with the Group's system of internal controls and relevant regulations and standards.

Principle 5 – Remuneration

The Remuneration Committee recommends remuneration policies to the board concerning pay strategy, recruitment, retention and incentivisation. These policies align with the Company's Vision, Mission and Core Beliefs, while taking into account the pay and working conditions of employees around the Group and the broader operating environment in which it operates. The Remuneration Committee consists of non-executive directors who operate pursuant to terms of reference that were adopted during the year ended 31 March 2020.

Gender pay gap is an area of active focus for the Company. Accordingly, a pay equity analysis is undertaken each year which identifies irregularities for consideration and action. The gender pay gap for the Company is disclosed annually in compliance with statutory reporting obligations.

Principle 6 – Stakeholders

The Chief Executive provides a briefing on stakeholder engagement to each scheduled meeting of the board through a stakeholder dashboard report, and directors have the opportunity to discuss and provide feedback, and to consider stakeholder engagement when making decisions. Having completed a detailed review of our stakeholders during the year ended 31 March 2020, the following were identified as key stakeholders of the Company:

Customers. The Company has continued to pursue engagement with and feedback from its customers through structured meetings on a regular basis. These include strategic meetings where senior management meet to discuss the current state of business, align with the customer's strategy and timescales, and address any concerns or feedback. Technical review meetings are also held involving senior technical management and engineers where they discuss the current technical status, align with the customer's project progress, deep dive into relevant technical areas and create action plans for technical issues. Other customer engagement methods involve workshops, demos, attendance at conferences, and events and surveys.

Suppliers. Continued supplier engagement and feedback helps improve the quality of service delivered to the Company. The Company maintains regular dialogue with its suppliers and feedback is received and managed through each relevant business function. The Company is also currently developing systems for better supplier management and engagement. These include implementing supplier management leading practice training, implementing a leading practice supplier risk management process, rolling out a supplier Executive sponsorship programme, developing a supplier's sustainability and diversity policy, and 360-degree feedback surveys for suppliers.

Employees. Employees are actively encouraged to provide feedback, report concerns and raise questions. Interactive engagement with the workforce is foundational to the Company's Vision, Mission and Core Beliefs, which are actively promoted by the board and cascaded to all levels of management and across the workforce.

During the year ended 31 March 2020, employee engagement was undertaken through a variety of channels. The Company has held Quarterly Business Update meetings to which all employees are invited to receive an update on business performance, strategy and other important aspects of the Company's activities and culture that impact the workforce, and have the opportunity to ask questions or seek clarifications. Feedback was received through annual "Life at Arm" surveys rolled out to all employees, which provides valuable insight on sentiment and engagement and other areas such as diversity and inclusion. Throughout the year, multiple "In Conversation With" sessions were held where employees have an opportunity to engage directly with individuals from the senior management. Each business function convened numerous "All-hands" meetings to address key topics and issues arising at business unit or regional level. Further, communication was effected through the use of in-house social media, publications, electronic bulletins and the Company's intranet.

Towards the end of 2019, employees were asked for their feedback on the Company's Core Beliefs in order to check whether they remain a source of competitive advantage for the Company given the significant amount of change it has gone through since 2014, when the Core Beliefs were first introduced. New indicators were launched on 1 April 2020 to reflect the feedback received.

Diversity and Inclusion have been a key topic for the past year. At the end of September 2019, the Company celebrated "Inclusion Week" – a campaign to provide tools and guidance to support, foster and build an inclusive environment. Throughout key locations lunch and learns were hosted on why inclusion matters, along with Project EveryOne unconscious bias training workshops and a new resource on the Giving Hub: Diversity, Inclusion and Belonging Challenge with 426 tasks completed to date.

Principle 6 – Stakeholders (continued)

Health and safety of employees remains one of the top priorities for the board. During the final weeks of the year ended 31 March 2020, the COVID-19 virus pandemic and subsequent "lock-down" saw significant impact to employees' lives and working conditions. The Company responded quickly and robustly to the pandemic to protect and support the employees during this unprecedented time. Actions have included, among others, regular crisis response team meetings, dissemination of accurate information and two-way interaction through HR systems and social channels, regular communications from the CEO and members of the Executive Committee, IT support, guides and resources in connection with working from home and Life at Arm while working from home survey.

Public Organisations. The Company engages with a variety of governmental and intergovernmental bodies, trade associations and local communities on a global basis. The Chief Executive is a key industry contributor and leader holding positions in business and trade organisations in the semiconductor industry. For example, he is the vice-chair of the Semiconductor Industries Association and is also on the board of the Global Semiconductor Alliance. These member organisations address key issues affecting the relevant industry sector and also seek to promote responsible growth in the technology space or within the broader engineering field on issues of education, technology for good, diversity and inclusion. Regular meetings, preparation of letters and policy papers are some of the activities to which the Company contributes. Please see section above entitled "Strategic Report – Section 172 Companies Act 2006" for details on engagement with intergovernmental bodies and local communities.

Arm Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgements and accounting estimates that are reasonable and prudent;

• state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

• properly select and apply accounting policies;

• present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

• provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

• make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Arm Limited

Independent Auditor's Report to the Members of Arm Limited

Report on the audit of the financial statements

Qualified opinion

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of our report:

- the financial statements of Arm Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 55.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for qualified opinion

The group's investment in Arm Technology (China) Co. Limited ("Arm China"), a foreign associate accounted for by the equity method, is carried at £603.4m on the consolidated balance sheet as at 31 March 2020. The group's licence revenue earned from sales to Arm China of £144.4m and share of the associate's total comprehensive income of £18.6m are included in the consolidated income statement for the year then ended. At 31 March 2020 the group had outstanding receivable due from Arm China of £395.2m, of which £208.3m relates to licence revenue.

As disclosed in note 36 to the financial statements, there are two matters related to Arm China on which we were unable to obtain sufficient appropriate audit evidence:

- the on-going investigation led by Arm China's Board of Directors into allegations about the conduct of certain members of senior management in Arm China ("Arm China's investigation"); and
- non-adjusting or adjusting events related to Arm China that may have arisen during or subsequent to the year ended 31 March 2020.

Arm Limited

Independent Auditor's Report to the Members of Arm Limited (continued)

As disclosed in note 36 to the financial statements, the directors were unable to determine whether any adjustments to the amounts or disclosure in the financial statements were necessary as a result of any non-adjusting or adjusting events, or the conclusion of Arm China's investigation. As a result we were unable to obtain sufficient appropriate audit evidence about these matters. In addition, were any adjustment to the amounts or disclosure in the financial statements to be required, the strategic report may also need to be amended.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

• the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or

• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, we were unable to determine whether any adjustments to amounts or disclosure in the financial statements in relation to Arm China were necessary as a result of any non-adjusting or adjusting events, or the conclusion of Arm China's investigation.

We have concluded that where the other information refers to these matters, it may be materially misstated for the same reason.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of our report, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Except for the possible effects of the matters described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Arising solely from the limitation on scope of our work relating to the associate referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julian Rae (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

Date: 22 October 2020

Arm Limited

Consolidated Income Statement

For the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Revenue	5	1,491,502	1,387,999
Cost of sales		(112,812)	(99,378)
Gross profit		1,378,690	1,288,621
Research and development costs	6	(672,712)	(655,658)
Selling, general and administrative expenses		(670,083)	(556,184)
Impairment of loan receivables	6, 18	(2,283)	(1,502)
Operating profit		33,612	75,277
Finance income	9	16,831	15,158
Gain on disposal of subsidiary	28	-	599,448
Loss on disposal of associate	18	(332)	-
Revaluation gain on recognition of associate	18	-	594,770
Finance costs	10	(8,427)	(324)
Share of results of associates and joint ventures	18	9,735	(1,086)
Profit before tax		51,419	1,283,243
Tax	11	(114,273)	(267,936)
(Loss) / profit for the year		(62,854)	1,015,307

All the (loss) / profit for the year is attributable to the owners of the Company and all activities relate to continuing operations.

The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

Arm Limited

Consolidated Statement of Comprehensive Income

For the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
(Loss) / profit for the year		(62,854)	1,015,307
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustment		58,088	83,640
Share of results of associates and joint ventures	18	999	-
Investment revaluation		11,957	5,779
Deferred tax on investment revaluation		(1,948)	(950)
Other comprehensive income for the year net of tax		69,096	88,469
Total comprehensive income for the year		6,242	1,103,776

Total comprehensive income for the year is attributable to the owners of the Company.

The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

Arm Limited

Consolidated Balance Sheet (Registered Number: 02557590)

As at 31 March 2020

	Note	2020	2019 Restated*	1 April 2018 Restated*
		£ 000	£ 000	£ 000
Non-current assets				
Goodwill	13	1,325,715	1,277,336	893,615
Other intangible assets	14	279,587	257,024	163,507
Property, plant and equipment	15	188,867	141,661	117,529
Right-of-use assets	16	227,508	-	-
Investments in associates and joint ventures	18	623,565	608,610	941
Investments	19	126,883	79,610	54,541
Contract assets	21	5,282	5,354	9,929
Trade and other receivables	22	67,423	8,619	3,609
Embedded derivatives (asset)	35	6,259	-	-
Deferred tax assets	23	6,206	44,658	41,007
		2,857,295	2,422,872	1,284,678
Current assets				
Inventories	20	1,772	2,922	2,120
Contract assets	21	60,087	63,709	60,991
Trade and other receivables	22	813,900	632,041	451,387
Current tax assets		29,142	12,984	23,020
Treasury deposits		429	423	809,332
Cash and cash equivalents	30	894,710	1,067,231	251,926
Embedded derivatives (asset)	35	5,856	9,589	-
Fair value of currency exchange contracts		-	-	493
Assets classified as held for sale		-	-	18,630
		1,805,896	1,788,899	1,617,899
Total assets		4,663,191	4,211,771	2,902,577
Current liabilities				
Trade and other payables	24	454,559	364,394	323,179
Current tax liabilities		50,400	17,830	34,669
Obligations under finance leases	16	-	5,012	7,828
Lease liabilities	16	31,524	-	-
Contract liabilities	34	81,555	51,869	69,331
Provisions	25	20,502	4,026	-
Embedded derivatives (liability)		-	-	4,026
Fair value of currency exchange contracts	35	4,796	-	-
Liabilities directly associated with assets classified as held for sale		-	-	12,595
		643,336	443,131	451,628
Net current assets		1,162,560	1,345,768	1,166,271

Arm Limited

Consolidated Balance Sheet (Registered Number: 02557590)

As at 31 March 2020

	Note	2020	2019 Restated*	1 April 2018 Restated*
		£ 000	£ 000	£ 000
Non-current liabilities				
Trade and other payables	24	92,516	77,034	33,405
Deferred tax liabilities	23	167,798	168,283	6,798
Obligations under finance leases	16	-	411	5,527
Lease liabilities	16	202,137	-	-
Contract liabilities	34	80,581	57,554	46,221
Liability for share based payments	32	4,038	2,584	-
		547,070	305,866	91,951
Total liabilities		1,190,406	748,997	543,579
Net assets		3,472,785	3,462,774	2,358,998
Equity attributable to owners of the Company				
Share capital	26, 27	1,025	1,025	1,025
Share premium account	27	469,895	469,895	469,895
Share based payments	8, 27, 32	7,411	-	-
Capital reserve	27	354,272	354,272	354,272
Translation reserve	27	305,754	247,666	164,026
Investment revaluation reserve	27	14,838	4,829	-
Retained earnings	27	2,319,590	2,385,087	1,369,780
Total equity		3,472,785	3,462,774	2,358,998

The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

*The comparatives were restated as a result of a prior period error. See note 39 for details regarding the restatement.

The financial statements were authorised for issue by the board of directors on 22 OCT 2020 and were signed on its behalf by:

G Budd

President and Chief Operating Officer

Arm Limited
Consolidated Statement of Changes in Equity
For the Year Ended 31 March 2020

	Share capital £ 000	Share premium account £ 000	Share based payments £ 000	Capital reserve £ 000	Translation reserve £ 000	Investment revaluation reserve £ 000	Retained earnings £ 000	Total equity £ 000
	Equity attributable to equity holders of the Company							
Balance at 1 April 2018 (as previously reported)	1,025	469,895	-	354,272	164,026	-	1,387,891	2,377,109
Correction of prior period error* (note 39)	-	-	-	-	-	-	(18,111)	(18,111)
Balance at 1 April 2018 (restated*)	1,025	469,895		354,272	164,026	-	1,369,780	2,358,998
Profit for the year	-	-	-	-	-	-	1,015,307	1,015,307
Other comprehensive income for the year:								
Currency translation adjustment	-	-	-	-	83,640	-	-	83,640
Investment revaluation	-	-	-	-	-	5,779	-	5,779
Deferred tax on investment revaluation	-	-	-	-	-	(950)	-	(950)
Total comprehensive income for the year	-	-	-	-	83,640	4,829	1,015,307	1,103,776
Balance at 31 March 2019 (restated*)	1,025	469,895	-	354,272	247,666	4,829	2,385,087	3,462,774
Balance at 1 April 2019 (as previously reported)	1,025	469,895	-	354,272	247,666	4,829	2,403,198	3,480,885
Correction of prior period error* (note 39)	-	-	-	-	-	-	(18,111)	(18,111)
Effect of change in accounting policies for IFRS 16** (note 2)	-	-	-	-	-	-	(3,642)	(3,642)
Balance at 1 April 2019 (restated*)	1,025	469,895	-	354,272	247,666	4,829	2,381,445	3,459,132
Loss for the year	-	-	-	-	-	-	(62,854)	(62,854)
Other comprehensive income for the year:								
Currency translation adjustment	-	-	-	-	58,088	-	-	58,088
Share of results of associates and joint ventures							999	999
Investment revaluation	-	-	-	-	-	11,957	-	11,957
Deferred tax on investment revaluation	-	-	-	-	-	(1,948)	-	(1,948)
Total comprehensive income for the year	-	-	-	-	58,088	10,009	(61,855)	6,242
Share based compensation	-	-	7,411	-	-	-	-	7,411
Balance at 31 March 2020	1,025	469,895	7,411	354,272	305,754	14,838	2,319,590	3,472,785

*The comparatives were restated as a result of a prior period error. See note 39 for details regarding the restatement

**The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

Arm Limited

Consolidated Statement of Cash Flows

For the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Net cash from/(used in) operating activities	30	63,575	(25,791)
Investing activities			
Interest received		15,422	14,374
Disposal of subsidiary		-	592,450
Purchases of property, plant and equipment		(112,142)	(83,751)
Proceeds from disposal of property, plant and equipment		6,878	-
Purchases of intangible assets		(30,394)	(40,714)
Increase in long term prepayments		(3,952)	(5,010)
Investments in associates and joint ventures		(6,606)	(15,994)
Proceeds on disposal of associates and joint ventures		1,470	-
Dividends received from Investments in associates and joint ventures		346	-
Purchases of trading investments		(36,769)	(14,238)
Dividends received from trading investments		51	-
Proceeds from disposal of trading investments		276	-
Purchase of other investments		(39,369)	(15,483)
Acquisitions of subsidiaries, net of cash acquired		-	(416,307)
Net (decrease)/increase in deposits		(6)	808,402
Long term loans granted		(2,876)	(1,653)
Long term loan repayments received		750	-
Net cash (used in)/from investing activities		(206,921)	822,076
Financing activities			
Repayments of obligations under finance leases		-	(12,153)
Principal payments on lease liabilities	30	(35,021)	-
Net cash used in financing activities		(35,021)	(12,153)
Net (decrease)/increase in cash and cash equivalents		(178,367)	784,132
Cash and cash equivalents at beginning of year		1,067,231	251,926
Effect of foreign exchange rate changes		5,846	31,173
Cash and cash equivalents at end of year		894,710	1,067,231

The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

1 General information

Arm Limited (the Company) is a private Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is 110 Fulbourn Road, Cambridge, CB1 9NJ.

The principal activities and nature of operations are disclosed in the Directors' Report and the Strategic Report.

The Group is ultimately controlled by SoftBank Group Corp., a company registered in Japan. The Group consists of Arm Limited and its subsidiaries as set out in note 44.

During the year the Group set up and incorporated new subsidiaries. Details of these subsidiaries are disclosed in note 44. There have not been any other changes to the composition of the Group. See notes 28 and 29 for changes in the prior year.

2 Adoption of new and revised Standards

New and amended Standards effective for the current year

IFRS 16 'Leases'

In the current year, the Group has applied IFRS 16 Leases ("IFRS 16") (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 April 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

• Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
• Does not require restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

2 Adoption of new and revised Standards (continued)

Impact of the new definition of a lease (continued)

The Group has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

Former operating leases

IFRS 16 has changed how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group has:

a) Recognised right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments;
b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement;
c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group recognises a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating expenses in the income statement.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

• The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
• The Group has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the balance sheet immediately before the date of initial application as an alternative to performing an impairment review.
• The Group has elected not to recognise right-of-use assets and lease liabilities for leases where the lease term ends within 12 months of the date of initial application.
• The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
• The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

2 Adoption of new and revised Standards (continued)

Impact on lessee accounting (continued)

Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 April 2019.

Intangible assets

Historically the Group accounted for leases of intangible assets under IAS 17 Leases as operating leases. IFRS 16 allows a policy choice as to whether to apply IFRS 16 to leases of other intangible assets. The Group has elected not to apply IFRS 16 to leases of intangible assets, and therefore such leases are accounted for under the provisions of IAS 38.

On transition the Group recognised a £4.3 million increase to retained earnings in respect of leases of intangible assets.

Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

	1 April 2019 £ 000
Right-of-use assets recognised	92,394
Lease liabilities	97,691

The difference of £5.3 million on transition is recognised as a reduction to retained earnings.

The total adjustment to retained earnings at 1 April 2019 is:

	£ 000
As a result of application of IAS 38 to intangible leases	4,310
As a result of transition to IFRS 16	(7,952)
Total	(3,642)

Included within the adjustment to retained earnings is a credit of £1.6 million relating to the deferred taxation arising on the initial recognition of right-of-use assets and lease liabilities.

2 Adoption of new and revised Standards (continued)

Impacts on financial statements

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted-average rate applied is 2.64%.

	1 April 2019 £ 000
Operating lease commitment at 31 March 2019 as disclosed in the Group's consolidated financial statements	170,124
Intangible assets recognised under the provisions of IAS 38 (see above)	(65,766)
Short-term leases and leases of low-value assets	(411)
Effect of discounting using the incremental borrowing rate at 1 April 2019	(6,256)
	97,691
Finance lease recognised as at 31 March 2019	5,423
Lease liabilities recognised at 1 April 2019	103,114

Impact for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £224.8 million of right-of-use assets and £233.0 million of lease liabilities as at 31 March 2020.

The impact on profit or loss for the year ended 31 March 2020:
- increased depreciation expenses by £33.7 million;
- increased finance costs by £4.8 million; and
- decreased the cost of operating leases charged to the income statement by £34.6 million.

IFRIC 23 ' Uncertainty over Income Tax Treatments'

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to:
- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used by an entity in its income tax filing.

The adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

3 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the periods presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"). The consolidated financial statements have been prepared on the historical cost basis, in accordance with those parts of the Companies Act 2006 that are applicable to companies that prepare consolidated financial statements in accordance with IFRS, except for the revaluation of certain financial instruments that are measured at fair value.

The consolidated financial statements are presented in sterling, which is the Group's reporting currency, and rounded to the nearest £1,000.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and management judgements in applying the accounting policies. The significant estimates made and judgements applied and their affect are disclosed in note 4.

The figures presented in respect of the Company's individual financial statements have been prepared in accordance with FRS 101 "Reduced Disclosure Framework" ("FRS 101") and the Companies Act 2006. The same recognition and measurement principles, under IFRS, apply to the Company individual financial statements as apply to the consolidated financial statements. In accordance with FRS 101 the following exemptions from the disclosure requirements of IFRS have been applied in the preparation of the Company financial statements and, where relevant, equivalent disclosures have been made in these consolidated financial statements:

• details required by paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted average exercise prices of RSUs (Restricted Stock Units), and how the fair value of goods or services received was determined).
• the requirement to publish a cash flow statement and related cash flow information, in accordance with IAS 7 Statement of Cash Flows and IAS 1 'Presentation of Financial Statements';
• disclosure of the objectives, policies and processes for managing capital, in accordance with IAS 1 'Presentation of Financial Statements';
• inclusion of an explicit and unreserved statement of compliance with IFRS, in accordance with IAS 1 'Presentation of Financial Statements';
• disclosure of key management compensation, in accordance with IAS 24 Related Party Disclosures;
• the requirements to disclose related party transactions entered into between two or more members of a group as required in IAS 24 'Related party disclosures'
• disclosure of the categories of financial instrument, nature and extent of risks arising on these financial instruments and the effect on the income statement, in accordance with IFRS 7 'Financial Instruments: Disclosures';
• disclosure of the future impact of new IFRSs in issue but not yet effective at the balance sheet date, in accordance with IAS 8 Accounting 'Policies, Changes in Accounting Estimates and Errors';
• comparative period reconciliations for share capital, investments, intangible fixed assets and property, plant and equipment;
• disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities, in accordance with IFRS 13 'Fair Value Measurement'; and
• the requirements of 10(f) and 40A-D of IAS 1 to prepare a statement of financial position as at the beginning of the preceding period when an entity retrospectively restates items in its financial statements.

3 Significant accounting policies (continued)

Basis of preparation (continued)

The financial statements of the Company are consolidated in these financial statements which are publicly available from Companies House, Crown Way, Cardiff, CF14 3UZ.

Prior period error

The Group and Company had incorrectly accounted for certain subscription revenue. Prior period errors are accounted for retrospectively. Particulars are disclosed in note 39.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Management acknowledge the significant economic impact of COVID-19 pandemic and the additional level of uncertainty it has introduced, however forecasts prepared to support the going concern assumption represent management's best estimates of future events with sufficient headroom to conclude a going concern assumption without a material level of uncertainty.

It is expected that the proposed acquisition of the Group by NVIDIA Corporation will consummate more than 12 months after the date of signing of these financial statements. Consequently, management does not presently expect the said intended transaction to have any material implication on the Group's going concern assessment as at the date of signing of these financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. Control is achieved when the Company:

• has power over the investee;
• is exposed, or has rights, to variable return from its involvement with the investee; and
• has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. In accordance with IFRS 3 - Business combinations, acquisitions are accounted for using the acquisition method where the Group is identified as having the role of 'acquirer' and the consideration transferred is demonstrably at fair value. Under the acquisition method, the results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement and statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. The 'Business combinations - acquisition accounting' policy provides further detail on the application of the acquisition method.

3 Significant accounting policies (continued)

Basis of consolidation (continued)

The combination of entities under common control are outside the scope of IFRS 3. In the absence of specific guidance for common control business combinations under IFRS the Group applied common practice and used the pooling of interests method to account for the business combination.

Under the pooling of interests method the Group applies an accounting policy choice to recognise the assets and liabilities of the acquired entities at their carrying values as reflected in the Group balance sheet of the original parent company (rather than the carrying values as reflected in the acquired entities own individual accounts). The effect of this accounting policy choice is that any fair value adjustments and goodwill arising on the original acquisition are carried over to these Group accounts when the pooling of interests method is applied for a common control business combination. For business combinations in the prior period accounted for using the pooling of interests method there was no difference between the carrying value of the assets and liabilities of the acquired entities in their own individual accounts and the carrying values in the Group balance sheet of the original parent company.

For the consolidated financial statements, the adoption of the pooling of interests method presents Arm Limited as if it had always been the parent undertaking of the entities acquired; the income statement and the statement of comprehensive income reflect the results of the entities acquired for the full period and comparatives are presented as if the entities had always been combined.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in the income statement is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to the income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 'Financial Instruments', when applicable, the costs on initial recognition of an investment in an associate or a joint venture.

Business combinations - acquisition accounting

When the acquisition method of accounting is applied to a business combination the consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

3 Significant accounting policies (continued)

Business combinations - acquisition accounting (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Where consideration is deferred and payable to ex-shareholders who are employees of the Group, an assessment is made as to whether the amounts transferred should be accounted for as contingent consideration or as post business combination remuneration. If payment is contingent on future employment then the deferred consideration is always accounted for as post business combination remuneration and recognised in the income statement in accordance with IAS 19 Employee Benefits. If the consideration transferred by the Group in a business combination includes asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Arm Group as a whole, which represents the Group's only cash-generating unit expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3 Significant accounting policies (continued)

Investments in associates and joint ventures

A joint venture is one in which the Group is party to an arrangement of which two or more parties have joint control, which is the contractually agreed sharing of control of the arrangement; it exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. In a joint venture, the parties with joint control have rights to the net assets of the arrangement.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, investments in associates and joint ventures are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Investments in associates and joint ventures are accounted for using the equity method from the date on which the investee becomes an associate or joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in associates and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with an associate or joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not held by the Group.

In the individual accounts of the Company, interests in joint ventures and associates are stated at historic cost less accumulated impairment losses.

3 Significant accounting policies (continued)

Revenue

(a) Classes of Revenue

Revenue comprises the value derived from the sale of Arm technology licences, royalties arising from the resulting sale of end-user products that utilise Arm technology, revenues from support, maintenance and training, toolkits, and associated services.

IP licence revenue

The Group generally licenses IP under non-exclusive licence agreements that provide usage rights for specific applications for a finite or perpetual term. These licences are made available electronically to address the customer specific business requirements. These arrangements generally have distinct performance obligations that consist of transferring the licensed IPs, extensions or releases and support services. Support services consist of a stand-ready obligation to provide technical support and updates over the support term. Revenue allocated to the IP licence is recognised at a point in time upon the delivery of the licence in a functional state. Revenue allocated to extensions or releases are recognised as and when those are provided to the customers.

The Group also makes certain IP available through cloud-based infrastructure where the customer does not have the right to terminate the hosting contract. Under such arrangements, the customers do not have the right to take possession of the software to run on their own IT infrastructure, nor do they have the right to engage a third-party provider to host and manage the software. Revenue for these arrangements is recognised over time as the services are performed.

Royalty revenue

For certain IP licence agreements, royalties are collected on products that incorporate the Group's IP. Generally, this revenue is recognised as customers sell their products. Royalties are recognised on an accrual basis in the quarter in which the customers ship products containing Arm technology, using an estimate based on sales trends and product information.

Software and related service revenues

Sales of software, including development systems, which are not specifically designed for a given licence (such as off-the-shelf software) are recognised upon delivery when control has been transferred to the customer. Services (such as training and professional and design services) that the Group provides, which are not essential to the functionality of the IP, are separately stated and priced in the contract and, therefore, accounted for separately. Training revenue is recognised as services are performed. Revenue from professional and design services are recognised using percentage completion method based on engineering labour hours expended to date relative to the total effort required and/or as the stipulated engineering milestones are delivered. The Group has an enforceable right to payment for performance completed to date and the performance of such services do not create an asset with an alternative use.

3 Significant accounting policies (continued)

Revenue (continued)

(b) Identification of Contracts

The Group sometimes enters into multiple contracts with the same customer that are treated, for accounting purposes, as one contract if the contracts are entered into at, or near, the same time and are interrelated. Judgement is required in evaluating whether various contracts are interrelated, which includes considerations as to whether they were negotiated as a package with a single commercial objective, whether the amount of consideration on one contract is dependent on the performance of the other contract, or if some, or all, services in the contracts are a single performance obligation.

New arrangements with existing customers can be based on either a new contract or the modification of prior contracts. The Group's judgments in making this determination considers whether there is a connection between the new arrangement and the pre-existing contracts, whether the services under the new arrangement are highly interrelated with the products and services provided under prior contracts, and how the products and services under the new arrangement are priced.

(c) Identification of Performance Obligations

Customer contracts often include various products and services. Typically, the products and services outlined in the Classes of Revenue section qualify as separate performance obligations, and the portion of the contractual fee allocated to them is recognised separately. Judgement is required, however, in determining whether a good or service is considered a separate performance obligation. When selling licences or services, the Group frequently grants customers the choice to acquire additional rights, goods or services (for example, renewals of offerings, specified extensions contained in roadmaps, additional future products, or additional volumes of purchased licence). The Group also utilizes forward looking information such as product roadmaps and other marketing materials in identifying performance obligations for IPs/extensions under development/future products. The Group applies judgement in determining whether such options provide a material right that the customer would not receive without entering into that contract (material right options). In this judgement, consideration is given to determine whether the options entitle the customer to a discount that exceeds the discount granted for the respective products or services sold together without the option.

(d) Determination of Transaction Price

The Group applies judgement when determining the amount of consideration it expects to be entitled to in exchange for transferring promised goods or services to a customer. This includes estimates as to whether, and to what extent, subsequent concessions or payments may be granted to customers, which release customers from their obligations to pay contractual fees. In this judgement, historical trends are considered with respect to both the specific customer and broader group trends. The Company estimates the transaction price based on the amount expected to be received for transferring the promised goods or services in the contract. The Group's revenue arrangements generally do not include variable considerations other than royalties.

The estimate is reassessed at each reporting period. Some or all of the estimated amount of such variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

3 Significant accounting policies (continued)

Revenue (continued)

(d) Determination of Transaction Price (continued)

The Group has not identified financing components in its material revenue arrangements executed during the financial year. However, if such financing components were identified, they would only be accounted for if:
- they are considered significant; and
- the period between the transfer of the promised products or services and receipt of customer payment exceeds one year.

(e) Allocation of Transaction Price

A hierarchy is utilised to identify the standalone selling prices (SSPs) that are used to allocate the transaction price of a contract to the performance obligations in the contract, when more than one performance obligation exists. Where the SSPs for an offering are observable and reasonably consistent across customers (that is, not highly variable), the SSP estimates are derived from respective pricing history. Typically, the Group's standardised support and professional service offerings follow this approach.

For offerings that have highly variable pricing and lack substantial direct costs to estimate based on a cost-plus margin approach, the transaction price is allocated by applying a residual approach. If two or more goods or services in a contract have highly variable or uncertain stand-alone selling prices, then the Group applies a combination of methods to estimate the stand-alone selling prices of the performance obligations in the contract, including utilizing list prices, average of selling prices, etc., for initial allocation of revenue within such product groups after applying a residual approach. For customer agreements related to long-term licencing of architecture IP, the Group allocates the contract value to each of the performance obligations based on an estimate of the engineering efforts required to deliver the initial version of IP as well as related future versions, enhancements and upgrades.

Judgment is required when estimating SSPs. To judge whether the historical pricing of goods and services is highly variable, thresholds of pricing variability have been established alongside market pricing. The SSPs of material right options depend on the probability of option exercise. In estimating these probabilities, judgement is utilised when considering historical exercise patterns. The SSPs are reviewed periodically or whenever facts and circumstances significantly change.

(f) Recognition of Revenue

Revenue is recognised either at a point in time or over time depending on whether the product delivered is an Intellectual Property (IP) licence or Software as a Service (SaaS):

- IP licences are typically delivered by providing the customer with access to the licence. The licence period starts when such access is granted. Revenue is recognised for these licences at the point in time when the customer has control over the licence. In judging whether licence offerings grant customers a right to use, rather than a right to access, intellectual property, the usefulness of the licence without subsequent updates has been considered. Significant material rights are recognised upon the earlier of the exercise of the rights or the expiration of the right to exercise. IP is considered to be functionally complete when it reaches the "limited access (LAC)" milestone. At such milestone, significant testing has been performed and it is expected that there will be no or few remaining errors. LAC is the quality level at which Arm expects customers to be able to tape out their design using the licenced Arm IP.

3 Significant accounting policies (continued)

Revenue (continued)

(f) Recognition of Revenue (continued)

• *Software as a Service (SaaS) and support revenue is recognised over time as the performance obligation is* delivered. Where the performance obligation grants a right to continuously access and use a cloud offering for a certain term, revenue is recognised over time.
• Royalty revenue is recognised when underlying usage or sale occurs, generally when the customer sells its products that incorporate the Group's IP.
• Sales of software, including development systems are recognised upon delivery, when the control has been transferred to the customer. Training services that the Group provides are recognised at a point in time, when such services are delivered.

(g) Contract Balances

The Group recognizes trade receivables in full, when it has the contractual right to invoice the customer. Judgment is required in determining whether a right to consideration is unconditional and thus qualifies as a receivable. Contract assets for performance obligations are recognised over time as the performance obligations are satisfied.

Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Typically, the Group invoices fees for IP licenses on contract closure and license delivery. Periodic fixed fees for cloud subscription services, software support services, and other multi period agreements are typically invoiced in advance. Such fee prepayments account for the majority of the contract liability balance.

(h) Incremental Costs of Obtaining Customer Contracts

Capitalised costs from customer contracts are classified as non-financial assets on the balance sheet. The capitalised assets for the incremental costs of obtaining a customer contract primarily consist of sales commissions earned by our sales team. Historically, the incidence of these costs has not been material.

Leases

(i) Policy applicable from 1 April 2020

(a) The Group as a lessee
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Leases

(i) Policy applicable from 1 April 2020 (continued)

(a) The Group as a lessee (continued)

Lease payments included in the measurement of the lease liability comprise:
• Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
• Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
• The amount expected to be payable by the lessee under residual value guarantees;
• The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
• Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

• The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
• The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
• A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

3 Significant accounting policies (continued)

Leases (continued)

(i) Policy applicable from 1 April 2020 (continued)

(a) The Group as a lessee (continued)

The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated balance sheet.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(b) The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(ii) Policy applicable before 1 April 2019

(a) Finance leases:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement. Contingent rentals are recognised as expenses in the periods in which they are incurred.

(b) Operating leases:

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3 Significant accounting policies (continued)

Foreign currencies

a) *Functional and presentation currency.* The functional currency of each Group entity is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in sterling, which is the presentation currency of the Group and Company.

b) Transactions and balances . Transactions denominated in foreign currencies have been translated into the functional currency of each Group entity at actual rates of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at closing rates of exchange at the balance sheet date. Exchange differences have been included in sales, general and administrative expenses.

c) *Group Companies.* The results and financial positions of all Group entities (none of which has the currency of a hyper-inflationary economy) with functional currency that is not sterling are translated as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rates of exchange at the balance sheet date.
(ii) Income and expenses for each profit and loss presented are translated at the rates of exchange at the time of each transaction during the period.
(iii) All resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity in translation reserve.

Government grants

Grants in respect of specific research and development projects are recognised as receivable when there is reasonable assurance that they will be received and the conditions to obtain them have been complied with. Grants are credited to the income statement in the same period as the related research and development costs for which the grant is compensating. Grant income is presented within other operating income.

Operating profit

The Group's operating profit is stated before recognising the share of results of associates and joint ventures, finance income, finance costs, gain on disposal of subsidiary and revaluation gain on recognition of associate.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3 Significant accounting policies (continued)

Taxation

The current tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates individual positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The benefit of UK research and development is recognised under the UK's Research and Development Expenditure Credit (RDEC) scheme. The benefit is recorded as income included in profit before tax, netted against research and development expenses as the RDEC is of the nature of a government grant.

Deferred taxes are computed using the liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted rates and laws that will be in effect when the differences are expected to reverse. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that future tax profits will arise against which the temporary differences will be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities arising in the same tax jurisdiction are offset, where the taxation authority permits a single net payment.

In 2013 a decision to elect into the UK patent box regime was made. The UK patent box regime seeks to tax all profits attributable to patented technology at a reduced rate of 10%. As patent box profits are taxed at 10% and other profits are taxed at UK statutory rates, deferred tax assets and liabilities are measured using the average rates expected to apply on realisation or settlement.

The Group recognises liabilities for anticipated tax audit issues based on best estimates of potential additional taxes payable. Provisions are calculated individually based upon advice received from tax advisers and relevant correspondence received from tax authorities. Provisions are re-assessed by management at each period end date based upon any relevant new information received. Where the final tax outcome of these matters is different from the amounts recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Current and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3 Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation and any recognised impairment loss. The cost of property, plant and equipment is their purchase cost, together with any costs directly attributable to bringing the asset to its working condition for its intended use. External costs and internal costs are capitalised to the extent they enhance the future economic benefit of the asset.

Assets in the course of construction are carried at cost less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than assets under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Freehold buildings	4% per annum
Leasehold improvements	10% - 20% per annum or over the remaining term of the lease, whichever is shorter
Machinery and equipment	20% - 33% per annum
Fixtures, fittings & motor vehicles	20% - 33% per annum

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Assets under the course of

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately, such as IT software and purchased patents and licences to use technology, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is recognised so as to write off the cost of assets (other than assets under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Patents and licences	3 - 11 years
Computer software	3 - 5 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

3 Significant accounting policies (continued)

Intangible assets acquired in a business combination (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised so as to write off the value of assets over their useful lives, using the straight-line method, on the following bases:

Developed technology	1 - 12 years
Customer relationships	1 - 16 years
Trade names	4 years
In-process research and development	1 - 5 years

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

3 Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Research and development expenditure

All ongoing research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, production and sale are intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete the project, development costs are capitalised and amortised on a straight-line basis over the estimated useful life of the respective product. The Group believes its current process for developing products is essentially completed concurrently with the establishment of technological feasibility which is evidenced by a working model. Accordingly, development costs incurred after the establishment of technological feasibility have not been significant and, therefore, no costs have been capitalised to date.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Any collaborative agreement whereby a third party agrees to partially fund the Group's research and development is recognised over the period of the agreement as a credit within research and development expenses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

(a) Recognition and derecognition

Financial instruments, comprising financial assets and financial liabilities, are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or where it neither transfers nor retains substantially all of the risks and rewards of ownership and loses control. When control is retained, the Group continues to recognise the financial asset to the extent of its continuing involvement. Financial assets are also de-recognised when they are written off. Financial assets are written off when there is no reasonable expectation of further recoveries even though there may be enforcement actions ongoing.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

3 Significant accounting policies (continued)

Financial instruments (continued)

(a) Recognition and derecognition (continued)

Financial assets and financial liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(b) Classification and measurement

Financial assets and liabilities are initially measured at fair value, inclusive of transaction costs directly attributable to the acquisition or issue of the financial instrument, with the exception of trade receivables which are measured at their transaction price, determined in accordance with the Group's accounting policies for revenue. Subsequently, measurement depends on the financial assets/liabilities classification as follows:

- *Financial assets measured at fair value through profit or loss (FVTPL)*

Non-equity financial assets are classified as FVTPL if they arise from contracts which do not give rise to cash flows which are solely principal and interest, or otherwise where they are held in a business model which mainly realises them through sale.

Specifically, the Group's currency exchange contracts and embedded derivatives fall within this category. Embedded derivatives relate to foreign exchange agreements implicit in sales contracts which are denominated in a currency that is not the functional currency of either party. Gains or losses arising from changes in the fair value of financial assets at FVTPL are presented in the income statement within selling, general and administrative expenses in the period in which they arise.

- *Financial assets measured at fair value through other comprehensive income (FVTOCI)*

Non-equity financial assets are classified as FVTOCI where they arise from contracts which give rise to contractual cash flows which are solely principal and interest and which are held in a business model which realises some through sale and some by holding them to maturity. They are recognised initially at fair value plus any directly attributable transaction costs.

At the end of each reporting period they are remeasured to fair value, with the cumulative gain or loss compared to their amortised cost being recognised in other comprehensive income and in the revaluation reserve, except for the recognition in the income statement of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses.

When these assets are derecognised, the cumulative gain or loss is reclassified from equity to the income statement.

Equity investments not held for trading purposes are designated as at FVTOCI where they are considered strategic to the Group. Such designation is made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Amounts accumulated in the revaluation reserve in respect of these investments are transferred directly to retained earnings on the disposal of the investment. These investments are not subject to impairment.

3 Significant accounting policies (continued)

Financial instruments (continued)

(b) Classification and measurement (continued)

• *Financial assets measured at amortised cost*

Financial assets are held at amortised cost when they arise from contracts which give rise to contractual cash flows which are solely principal and interest and are held in a business model which mainly holds the assets to collect contractual cash flows.

Financial assets measured at amortised cost that are not purchased or originated credit-impaired are measured at amortised cost using the effective interest method. For those purchased or originated credit-impaired, the Group applies the credit-adjusted effective interest rate since initial recognition. These assets are also subject to impairment losses. Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated on the amortised cost (i.e. gross carrying amount less loss allowance). Interest income is included in finance income in the income statement.

• *Financial liabilities at amortised cost*

Financial liabilities, except those designated as at FVPL, are stated at amortised cost using the effective interest method. Interest is included in finance costs in the income statement.

• *Financial liabilities designated as at FVTPL*

The Group has irrevocably designated certain financial liabilities as at FVTPL on initial recognition because they are managed and their performance is evaluated on a fair value basis and information is provided internally on that basis to the Group's key management personnel.

The Group's embedded derivatives fall into this category.

Dividends

Distributions to owners of the Company are not recognised in the income statement under IFRS but are disclosed as a component of the movement in equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders. Interim dividends are recognised as a distribution when paid.

Share capital

Ordinary shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount of the outflow can be reliably estimated.

3 Significant accounting policies (continued)

Share based payments

(a) Equity-settled share based payments

The Group operates an equity-settled, share-based compensation plan (the 'RSU' scheme), under which the Group receives services from employees as consideration for equity instruments of Arm Limited. The awards are granted by Arm Limited. The fair value of the employee services received in exchange for the grant of the Restricted Stock Units (RSUs) is recognised as an expense. A credit is recognised directly in equity. The total amount to be expensed is determined by reference to the fair value of the RSUs granted valued using the Monte Carlo option pricing model:

• including any market performance conditions;
• excluding the impact of any service and non-market performance vesting condition; and
• including the impact of any non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of RSUs that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs that are expected to vest based on the market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Certain employees of the Company's subsidiaries are beneficiaries of the RSU scheme. In the individual accounts of the Company, where employees are compensated by equity-settled share based payment schemes for services rendered to subsidiary entities, the share-based payment charge arising in the subsidiary company is treated as a capital contribution in the individual accounts from Arm Limited.

(b) Cash-settled share based payments

The Group has certain cash-settled share based payment arrangements for which an option pricing model is used to estimate the fair value of the award. The fair value is charged on a straight-line basis as an expense in the consolidated income statement over the period that the employee becomes unconditionally entitled to the options (vesting period) with a corresponding change in the liability. The fair value of the award is measured initially at the date of grant and then remeasured at the end of each reporting period until the liability is settled and it is also remeasured at the date of settlement; any changes in fair value are recognised in the income statement for the period.

Under the arrangement certain non-market based vesting conditions linked to Group strategic objectives also affect the value of the award; measurement of the liability reflects the best estimate of the amount to settle the liability taking account of these non-market based vesting conditions.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates *are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period* of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgements and key sources of estimation uncertainty for the Group are discussed below.

Critical judgements in applying the Group's accounting policies

Leases

(a) Portfolio application
The Group has applied judgement when determining whether leases have reasonably similar characteristics.

(b) Lease term assessment
In determining the lease term the Group assesses whether it is reasonably certain to exercise, or not to exercise options to extend or terminate a lease. This assessment is made at the start of the lease and is reassessed if significant events or changes in circumstances occur that are within the Group's control.

Functional currency

Functional currency, per IAS 21 *The Effects of Changes in Foreign Exchange Rate,* is the currency of the primary economic environment in which the Company operates. The currency used in transactions relating to sales of goods and services and the currency used in transactions relating to costs are considered primary indicators of an entity's functional currency. This is considered a significant judgement area for the Company.

The majority of the Company's contracts with customers are denominated is US dollars ("USD") and the standard price book is USD-based, however it should be noted that customers are globally dispersed (not centred on the US) and negotiation with key customers is not necessarily driven by USD. Overall we conclude that USD is more dominant than pound sterling ("GBP") in determining revenues.

Costs are largely denominated in GBP but USD and other currencies have grown in significance for the Company. Overall GBP is considered more dominant than USD in determining costs.

Revenue and costs, as primary indicators, are mixed and more complex than just the currency in which the proceeds are received and therefore assessment of functional currency is subjective. Based on primary indicators, the Company's functional currency is considered to be GBP and there has not been a change in underlying transactions, events and conditions to change this assessment. It is anticipated that USD will continue to grow in significance for the Company's cost base and therefore functional currency.

Since 31 March 2020, management are of the view that the nature of underlying transactions, events and conditions have changed such that a change in functional currency to USD is warranted.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Impairment of goodwill and other intangibles

The Group tests goodwill and other intangibles for impairment at least annually. This requires an estimation of the value-in-use of the assets to which goodwill is allocated. As discussed in note 13, estimating the value-in-use requires the Group to calculate the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present values of those cash flows. The discount rate used is 13.0% (2019: 10.3%) and is based on an estimate of the Group's weighted average cost of capital. The Group reviews the carrying value of its assets including goodwill at the cash-generating unit level.

The impact of the COVID-19 pandemic has resulted in unprecedented and uncertain global economic conditions, consequently, management have applied judgement when preparing forecasts and those forecasts are subject to a significant degree of estimation uncertainty. Notwithstanding, the forecasts prepared represent management's best estimate of future events and all forecasts prepared indicate that there is sufficient headroom not to warrant an impairment of any recognised goodwill.

No sensitivities are disclosed as no reasonable possible change in the key assumption causes an impairment.

Impairment of associates

The Group applies estimation in determining the recoverable amount of its investments in associates. Specifically, this involves estimating future cash flows attributable to those investments and subjecting those cash flows to an appropriate discount rate. Those estimates are subject to forecasted events and circumstances and uncertain future conditions. Management applies such estimation techniques in determining the recoverable amount of Arm China which has a carrying amount of £603 million. The valuation is most sensitive to the estimated future cash flows and to changes in the long term growth rate and discount rate. The rates used are 4.0% and 12.5% respectively.

Management estimate that an increase in discount rate from 12.5% to 14.3% would reduce the headroom in Arm China to nil but would not result in an impairment charge.

Measurement of deferred tax and Patent Box

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

The appropriate rates applied in measurement are as a result of estimation factors based on the information available at the time. As new information arises or changes in other factors arise, this will impact the future measurement basis.

Deferred tax liabilities of £161.0 million (2019: £162.3 million) (note 23) recognised in the year have been measured using a best estimate of the anticipated qualifying apportionment of what will qualify for UK Patent Box tax rates at the point of settlement. This estimate is based on the information available at this financial year end and the measurement will remain subject to change as a result of future commercial decisions that could impact the estimate of qualifying revenues that fall under the UK Patent Box regime.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Share-based payment transactions

The fair value of restricted share units granted in respect of the Group's RSU scheme is measured using the Monte Carlo option pricing model which inherently makes use of significant estimates and assumptions concerning the future applied by the directors. Such estimates and judgements include the share price, the expected life of the RSU, and the number of employees that will achieve the vesting conditions.

Incremental borrowing rate for lease liabilities

When the interest rate implicit in the lease is not readily determinable, the Group estimates the incremental borrowing rate based on a risk free rate adjusted for the effect of the Group's credit risk. The Group made use of certain estimates when determining the incremental borrowing rate to discount lease liabilities. This involved using certain statistical models to calculate the finance spread and default risk the Group is subject to. The entire balance of the Right-of-use assets and lease liabilities are exposed to this area of estimation.

5 Revenue

An analysis of the Group's revenue is as follows:

	2020 £ 000	2019 £ 000
Licensing - point in time	360,112	324,054
Licensing - over time	75,323	88,423
Royalties	872,646	843,946
Support and maintenance	58,514	53,166
Training	2,658	3,817
Tools	52,274	45,083
Software as a service	69,975	29,510
	1,491,502	1,387,999
Finance income (see note 9)	16,831	15,158
	1,508,333	1,403,157

Geographical information

The Group's revenue from external customers by geographical location is detailed below:

	2020 £ 000	2019 £ 000
Europe	107,762	109,906
North America	543,052	497,149
Asia	840,688	780,944
	1,491,502	1,387,999

Constrained variable consideration

As at the reporting date, $12 million revenue is considered fully constrained and has not been included in amounts allocated to performance obligations on the basis that the amount is variable and contingent on the performance of certain agreed-upon acceptance criteria for which management cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

In a specific revenue transaction, the Group received a warrant right to acquire shares of the customer. Due to the uncertainty associated with the vesting conditions of the warrant, the value of the warrant instrument was deemed fully constrained as we consider it is not highly probable that a significant reversal of revenue will not occur in future periods and therefore the amount was excluded from the transaction price of the revenue arrangement.

Transaction price allocated to unsatisfied performance obligations of long term contracts

A portion of the Group's contracts are for the delivery of IP and related services within the next 12 months for which the practical expedient in paragraph 121(a) of IFRS 15 applies. However, certain arrangements and contracts have been entered into for which both: (a) the original contractual period was greater than 12 months; and (b) the Group's right to consideration does not correspond directly with the performance of these obligations.

The amount of revenue that will be recognised in future periods on these contracts when those remaining performance obligations will be satisfied is as follows:

	2020 £ 000
Within 1 year	138,094
Between 1 and 2 years	129,768
More than 2 years	30,563
	298,425

6 (Loss)/profit for the year

(Loss)/profit for the year has been arrived at after charging/(crediting):

	2020 £ 000	2019 £ 000
Net foreign exchange gains	(34,983)	(38,264)
Research and development costs	672,712	655,658
Depreciation of property, plant and equipment (note 15)	54,946	51,571
(Gain)/loss on disposal of property, plant and equipment	(93)	13,656
Amortisation of intangible assets (note 14)	91,257	50,946
Staff costs (see note 8)	932,621	853,467
Cost of inventories recognised as expense	13,360	16,643
Government grants - research and development expenditure credit	(29,383)	(21,215)
Impairment loss/(gain) recognised on trade receivables	668	(1,980)
Impairment loss recognised on loans receivable	2,283	1,502

During the year, the Group received a grant from Innovate UK for works connected to the creation of new centrally secured technology platform prototype. The credit to the income statement in the year in respect of this grant amounted to £2.4 million.

7 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2020 £ 000	2019 £ 000
Fees payable to the Company's auditor and their associates for the audit of the Company's and the Group's annual accounts	711	668
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	183	163
Total audit fees	894	831
Taxation compliance services	2	4
Other services	1,433	1,468
	2,329	2,303

A breakdown of fees payable to Deloitte LLP and their associates for non-audit services to the Company is not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Other services include non-statutory Softbank Group required review and audit work and IPO readiness services.

8 Staff costs

The average monthly number of employees (including executive directors) was:

	2020 No.	2019 No.
Technical	5,084	4,839
Non-technical	1,250	1,069
Total	6,334	5,908

Their aggregate remuneration comprised:

	2020 £ 000	2019 £ 000
Wages and salaries	796,544	744,026
Social security costs	81,304	65,074
Other pension costs (see note 33)	45,998	42,532
	923,846	851,632
Share based payments (note 32):		
Equity settled	7,411	-
Cash settled	1,364	1,835
	8,775	1,835
Total	932,621	853,467

9 Finance income

	2020 £ 000	2019 £ 000
Interest income	16,504	15,150
Dividends received from investments held at the reporting date	51	8
Gain on derecognition of investments	276	-
Total finance income	16,831	15,158

Finance income relates entirely to assets that are not measured at fair value through profit or loss.

10 Finance costs

	2020 £ 000	2019 £ 000
Interest on lease liabilities (note 16)	4,820	-
Interest on obligations under finance leases	-	324
Unwinding of discounts on provisions (note 25)	164	-
Other finance costs	3,443	-
Total finance costs	8,427	324

The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Consequently, interest in respect of obligations under finance leases reported in the prior period does not include interest in respect of additional leases recognised on initial application of IFRS 16. Note 2 provides more detailed information on the impact of adoption.

11 Tax

	2020 £ 000	2019 £ 000
Analysis of charge to profit or loss in the year:		
Current tax:		
Current tax on profits for the year	70,138	126,757
Adjustments in respect of prior years	1,580	(3,490)
Total current tax	71,718	123,267
Deferred tax:		
Origination and reversal of temporary differences	46,761	150,604
Adjustment in respect of prior years	(4,206)	(5,935)
Total deferred tax	42,555	144,669
Income tax expense	114,273	267,936
Analysis of charge to other comprehensive income in the year:		
Deferred tax:		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain on investments in equity instruments designated as at FVTOCI	1,948	950
	1,948	950

The tax charge for the year was different from the standard rate of corporation tax in the UK, as explained below:

	2020 £ 000	2019 £ 000
Profit before tax	51,419	1,283,243
Profit before tax at the corporation tax rate of 19% (2019: 19%)	9,770	243,816
Effects of:		
Adjustments in respect of prior years	(2,626)	(9,425)
Adjustments in respect of foreign tax rates	(932)	73,534
Research and development tax credits	(1,179)	(6,845)
Current impact of UK patent box regime	(9,295)	(58,460)
US deferred tax assets not recognised *	86,438	(549)
Foreign withholding tax	28,618	25,677
Other **	3,478	188
Total taxation	114,273	267,936

* Includes significant tax losses in the US due to the substantial investment being made by the ISG division and it is not probable that all of the tax benefit will be absorbed.
** Includes expenditure disallowable for tax purposes and potential additional tax payable on income

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

12 Dividends

There were no dividends paid for the year ended 31 March 2020 (2019: £nil).

13 Goodwill

	£ 000
Cost	
At 1 April 2018	893,615
Exchange differences	59,530
Recognised on acquisition of subsidiaries	324,191
At 31 March 2019	1,277,336
Exchange differences	47,761
Additions - adjustments to previously acquired subsidiaries	618
At 31 March 2020	1,325,715
Accumulated impairment losses	
At 1 April 2018	-
At 31 March 2019	-
At 31 March 2020	-
Carrying amount	
At 31 March 2020	1,325,715
At 31 March 2019	1,277,336
At 1 April 2018	893,615

The adjustment in respect of previously acquired subsidiaries relates to timing differences on the valuation of net assets of acquired subsidiaries at the acquisition date. The adjustment of £0.6 million includes £0.5 million in respect of changes to the net assets at the acquisition date of Arm Cloud Services Limited (formerly Stream Technologies Limited).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Whilst the Group reports certain key metrics separately in relation to its IPG (IP Group) and ISG (Internet Services Group) business units, there are significant interactions and inter-dependencies between IPG and ISG. Substantial investment and funding are provided to the ISG division by the IPG division which would not be provided if IPG was a stand-alone Group and additionally there are other activities provided by the IPG division for the benefit of the ISG division.

On this basis, it is not possible to separate the cash inflows for IPG and ISG and the two business units combined are deemed to represent the smallest identifiable group of assets that generate independent cash inflows. Therefore, in line with the guidance in IAS 36 Impairment of assets, IPG and ISG form one CGU and the Arm Limited Group is deemed to represent one CGU.

13 Goodwill (continued)

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculation were:

Period of projected cash flows
The directors have used a ten-year forecast from the Group's ten-year business plan. The forecasts in this plan are extrapolated for years ten to fifteen with an assumed terminal growth rate in revenue thereafter of 2%. Given the long-term nature of the Arm licensing and royalty business model, it is considered appropriate to use a ten-year forecast period to assess the expected future cash flows to be generated from the assets under review.

Revenue growth
Revenue growth assumptions are based on financial budgets and forecasts approved by senior management, taking into account typical semiconductor industry growth rates and Arm's historical experience in the context of wider industry and economic conditions. Significant growth is planned in the ISG part of the business.

Operating margins
Operating margins, measured based on EBITDA, have been assumed to improve steadily over the period of the calculation.

Discount factor
Future cash flows are discounted at a rate of 13.0% (2019: 10.3%) per annum post tax.

Conclusion
The directors are confident that the amount of goodwill is appropriate and that the assumptions used in estimating its recoverable amount are appropriate. In making this assessment the directors have considered possible scenarios, such as changes to terminal growth rates and the discount rate used, that could result in an impairment and carried out a sensitivity analysis of the forecasts underpinning the cash flow forecasts. This sensitivity analysis takes account of actual results to date. The directors are satisfied, based on all this work, that there is no impairment of goodwill.

Whilst it is conceivable the Group's current plans could change, the directors believe that based on the existing strategy it is reasonable to assess goodwill on the basis that the Group is one CGU. This will be kept under review going forward.

14 Other intangible assets

	Patents & licences £ 000	Developed technology £ 000	Customer relationships £ 000	Trade names £ 000
Cost				
At 1 April 2018	122,525	131,622	5,628	-
Additions	15,938	56,602	44,636	1,334
Exchange differences	-	1,114	(738)	(26)
At 31 March 2019	138,463	189,338	49,526	1,308
Additions - separately acquired	96	-	-	-
Exchange differences	-	3,222	1,780	61
At 31 March 2020	138,559	192,560	51,306	1,369
Amortisation and impairment				
At 1 April 2018	77,025	45,698	2,488	-
Charge for the year	13,187	24,460	4,945	247
Exchange differences	-	422	(31)	(2)
At 31 March 2019	90,212	70,580	7,402	245
Charge for the year	14,042	24,172	5,524	335
Exchange differences	-	1,400	291	19
At 31 March 2020	104,254	96,152	13,217	599
Carrying amount				
At 31 March 2020	34,305	96,408	38,089	770
At 31 March 2019	48,251	118,758	42,124	1,063
At 1 April 2018	45,500	85,924	3,140	-
Average remaining useful life	2.7 years	4.2 years	7.2 years	2.3 years

All amortisation on intangible assets is charged to the income statement in either research & development costs or selling, general & administrative costs dependent upon the nature of the asset.

14 Other intangible assets (continued)

	Computer software £ 000	Intangible assets under construction £ 000	In-process research and development £ 000	Total £ 000
Cost				
At 1 April 2018	33,056	17,052	30,873	340,756
Additions	4,437	22,403	-	145,350
Transfers (note 15)	14,885	(14,885)	-	-
Disposals	(1,362)	(999)	-	(2,361)
Exchange differences	168	-	162	680
At 31 March 2019	51,184	23,571	31,035	484,425
Transition to IFRS 16*	70,077	-	-	70,077
At 1 April 2019	121,261	23,571	31,035	554,502
Additions - internally generated	-	16,025	-	16,025
Additions - separately acquired	33,810	-	-	33,906
Transfers (note 15)	17,035	(20,541)	-	(3,506)
Disposals	(20,326)	(2,200)	-	(22,526)
Exchange differences	(11)	-	165	5,217
At 31 March 2020	151,769	16,855	31,200	583,618
Amortisation and impairment				
At 1 April 2018	23,191	-	28,847	177,249
Charge for the year	7,605	-	502	50,946
Disposals	(1,235)	-	-	(1,235)
Exchange differences	52	-	-	441
At 31 March 2019	29,613	-	29,349	227,401
Charge for the year	46,666	-	518	91,257
Transfers (note 15)	216	-	-	216
Disposals	(16,673)	-	-	(16,673)
Exchange differences	22	-	98	1,830
At 31 March 2020	59,844	-	29,965	304,031
Carrying amount				
At 31 March 2020	91,925	16,855	1,235	279,587
At 31 March 2019	21,571	23,571	1,686	257,024
At 1 April 2018	9,865	17,052	2,026	163,507
Average remaining useful life	1.8 years	-	2.3 years	

* The adjustment in respect of the transition to IFRS 16 relates to assets recognised on initial application of IFRS 16. See note 2 for further details.

During the year, the Group transferred Assets under construction classified as Intangible assets with a net book value of £3.7 million to property, plant and equipment to better reflect the nature of the underlying assets.

15 Property, plant and equipment

	Freehold buildings £ 000	Leasehold Improve-ments £ 000	Machinery and Equipment £ 000	Fixtures, fittings and motor vehicles £ 000	Assets in the course of construction £ 000	Total £ 000
Cost						
At 1 April 2018	190	38,763	169,704	18,297	25,398	252,352
Additions	-	10,492	50,210	6,161	20,120	86,983
Acquisition of subsidiary	-	149	224	41	-	414
Disposals	-	(81)	(17,682)	(66)	(12,320)	(30,149)
Exchange differences	-	1,314	4,839	(425)	(30)	5,698
At 31 March 2019	190	50,637	207,295	24,008	33,168	315,298
Transition to IFRS 16*	-	-	(42,437)	-	-	(42,437)
At 1 April 2019	190	50,637	164,858	24,008	33,168	272,861
Additions	-	22,364	58,439	8,634	22,705	112,142
Transfers (note 14)	-	47,436	(246)	2,896	(46,364)	3,722
Disposals	(190)	(9,343)	(52,019)	(5,297)	(4,674)	(71,523)
Exchange differences	-	1,436	3,967	558	(133)	5,828
At 31 March 2020	-	112,530	174,999	30,799	4,702	323,030
Depreciation						
At 1 April 2018	147	16,250	109,923	8,503	-	134,823
Charge for the year	7	6,988	40,326	4,250	-	51,571
Disposals	-	(159)	(16,016)	(317)	-	(16,492)
Exchange differences	-	189	3,385	161	-	3,735
At 31 March 2019	154	23,268	137,618	12,597	-	173,637
Transition to IFRS 16*	-	-	(32,337)	-	-	(32,337)
At 1 April 2019	154	23,268	105,281	12,597	-	141,300
Charge for the year	7	11,431	37,879	5,629	-	54,946
Disposals	(161)	(9,097)	(50,743)	(4,737)	-	(64,738)
Exchange differences	-	300	2,782	(427)	-	2,655
At 31 March 2020	-	25,902	95,199	13,062	-	134,163
Carrying amount						
At 31 March 2020	-	86,628	79,800	17,737	4,702	188,867
At 31 March 2019	36	27,369	69,677	11,411	33,168	141,661
At 1 April 2018	43	22,513	59,781	9,794	25,398	117,529

* The adjustment in respect of the transition to IFRS 16 relates to assets derecognised on initial application of IFRS 16 and rerecognised as right-of-use assets. See note 2 for further details.

During the year, the Group transferred assets under construction classified as Intangible assets with a net book value of £3.7 million to property, plant and equipment to better reflect the nature of the underlying assets. In addition, the construction of certain IT data centres were completed and were transferred out of assets under construction and classified within machinery and equipment, fixtures and fittings and leasehold improvements.
At 31 March 2019, included within machinery and equipment are assets held under finance leases (as reported under IAS 17) with carrying value of £10.1 million.

16 Leases

The Group leases various offices, vehicles and IT equipment. Rental contracts are typically made for a fixed period of 2 to 20 years, but may have extension options as described below.

Until the March 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payment (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonable certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of small items of office equipment.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group.

16 Leases (continued)

(a) Right-of-use assets

The carrying amount of the Group's right-of-use assets are set out below:

	Property £ 000	Motor vehicles £ 000	IT equipment £ 000	Total £ 000
Cost				
At 31 March 2019	-	-	-	-
Transition to IFRS 16*	184,333	1,132	48,024	233,489
At 1 April 2019	184,333	1,132	48,024	233,489
Additions	162,134	124	-	162,258
Disposals	(19,140)	(591)	-	(19,731)
Exchange differences	6,926	103	-	7,029
At 31 March 2020	334,253	768	48,024	383,045
Depreciation and impairment				
At 31 March 2019	-	-	-	-
Transition to IFRS 16*	94,776	584	35,636	130,996
At 1 April 2020	94,776	584	35,636	130,996
Charge for the year	32,120	364	8,679	41,163
Disposals	(19,034)	(535)	-	(19,569)
Exchange differences	2,892	55	-	2,947
At 31 March 2020	110,754	468	44,315	155,537
Carrying amount				
At 31 March 2020	223,499	300	3,709	227,508
At 31 March 2019	-	-	-	-

Lease liabilities

The carrying amount of lease liabilities at 31 March 2020 are set out below:

	Property £ 000	Motor vehicles £ 000	IT equipment £ 000	Total £ 000
Current lease liabilities	29,587	147	1,790	31,524
Non-current lease liabilities	202,063	74	-	202,137
Total lease liabilities	231,650	221	1,790	233,661

* The adjustment in respect of the transition to IFRS 16 relates to assets recognised on initial application of IFRS 16 as right-of-use assets. See note 2 for further details.

16 Leases (continued)

(b) Lease liabilities (continued)

The maturity of the gross contractual undiscounted cash flows due on the Group's lease liabilities is set out below based on the period between 31 March 2020 and the contractual maturity date.

	Within 1 year £ 000	Between 1 and 5 years £ 000	Over 5 years £ 000	Total £ 000
Property	34,719	99,406	131,620	265,745
Motor vehicles	185	74	-	259
IT equipment	1,106	-	-	1,106
	36,010	99,480	131,620	267,110

(c) Impact on the consolidated Income Statement

	2020 £ 000	2019 £ 000
Depreciation charge of right-of-use assets		
Property	32,120	-
Motor vehicles	364	-
IT equipment	8,679	-
	41,163	-
Interest expense	4,820	-
Expense relating to short-term and low-value leases	4,526	-

(d) Comparative information in respect of leases reported under IAS 17

The Group leases various offices, vehicles and IT equipment under non-cancellable finance and operating leases expiring within two months to twenty years. The leases have varying terms and renewal rights. On renewal the terms of the leases are renegotiated.

From 1 April 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see above for further information.

(i) Obligations under finance leases

	Minimum lease payments 2019 £ 000
Amounts payable under finance leases:	
Within one year	5,149
In the second to fifth years inclusive	442
	5,591
Less: future finance charges	(168)
Present value of lease obligations	5,423

16 Leases (continued)

Comparative information in respect of leases reported under IAS 17 (continued)

	Present value of minimum lease payments 2019 £ 000
Amounts payable under finance leases:	
Within one year	5,012
In the second to fifth years inclusive	411
Present value of lease obligations	5,423
Analysed as:	
Amounts due for settlement within 12 months (shown under current liabilities)	5,012
Amounts due for settlement after 12 months	411
	5,423

Obligations under finance leases are secured on the related assets.

Finances leases related to three and four-year finance lease arrangements in respect of certain IT equipment.

(ii) Operating lease arrangements

The Group as lessee:

	2019 £ 000
Lease payments under operating leases recognised as an expense in the year	66,671

As at 31 March 2019, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fell due as follows:

	2019 £ 000
Within one year	59,238
In the second to fifth years inclusive	96,863
After five years	14,022
	170,123

17 Subsidiaries

The Group consists of a parent company, Arm Limited, incorporated in the United Kingdom and a number of subsidiaries held directly and indirectly by Arm Limited, which operate and are incorporated around the world. Note 44 to the Company's separate financial statements lists details of the interests in subsidiaries.

All subsidiaries are owned 100% by the Group. There are no non-controlling interests in the Group's subsidiaries. There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities.

18 Associates and joint ventures

	£ 000
At 1 April 2018	941
Revaluation gain on recognition of associate	594,770
Investment	10,443
Share of results for the year	2,456
At 31 March 2019	608,610
Investments:	
- financed by cash	6,606
- financed by loan conversion	2,683
Share of results for the year	10,246
Share of OCI for the year	999
Dividend paid	(346)
Foreign exchange	(5,233)
At 31 March 2020	623,565

Share of results of associates and joint ventures
The Group recognises its share of results first against the equity investment, then, if there are additional share of results to record, against any long-term loans to associates or joint ventures. The share of results was recorded as follows:

	2020 £ 000	2019 £ 000
Equity investments in associates and joint ventures	10,246	2,456
Long-term loans receivable from associates and joint ventures	(511)	(3,542)
Total share of results for the year	9,735	(1,086)

Arduino SA
During the year, the Group's interest in Arduino SA increased from 10.4% to 15.7% following a funding round in March 2020 whereby the company invested a further £5.4 million into the company which was financed in part by cash and in part by conversion of a portion of a loan receivable balance due from Arduino SA.

INCUDATA Corp.
During the year the Group invested £3.1 million (JPY 400 million) in a new data utilisation venture, INCUDATA Corp.

Arm IOT Fund LP (Taiwan)
During the year the Group invested a further £0.6 million (USD 0.8 million) in Arm IOT Fund LP.

CIC Accelerator Advisory
During the year the Group became a founding member of Accelerator Advisory Limited and invested £0.3 million into CIC Accelerator Advisory Limited

Trustonic Limited
During the year, the Group provided additional finance of £2.9 million to Trustonic Limited, and subsequently wrote down the entire balance of the loan, recording impairment losses of £2.3 million (2019: £1.5 million) as the balance was not expected to be recovered. The Group has since sold its investment in Trustonic and recorded a loss on disposal of £0.3 million. During the year, the Group recorded a share of losses of £0.5 million (2019: £3.5 million) in respect of Trustonic Limited.

18 Associates and joint ventures (continued)

Details of the Group's associates and joint ventures at 31 March 2020 are as follows:

Name	Place of business and registered office address	Principal activity	Holding	Proportion of ownership interest %	Proportion of voting power held %
Arduino SA	Corso San Gottardo 6A, 6830 Chiasso, Switzerland	Computer programming activities	Ordinary shares **	15.7	15.7
Arm IOT Fund LP (Taiwan)*	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	Investor in early-stage IoT ventures	Contributed capital***	18.5	18.5
Arm Technology (China) Co. Limited	Qianhai Complex A201, Building A, No. 1 Qianwan 1st Road, Qianhai Shengang Cooperation Zone, Shenzhen, PR China	Licensing and R&D of microprocessors and related IP	Ordinary shares	47.3	47.3
CIC Accelerator Advisory Limited *	Mills & Reeve Llp Botanic House, 100 Hills Road, Cambridge, CB2 1PH, United Kingdom	Big data analytics and Artificial intelligence	Ordinary shares	27.8	27.8
INCUDATA Corp.*	1-9-1 Higashishimbashi Minato-ku, Tokyo, Japan	Development and provision of data business solutions	Ordinary shares	20.0	20.0
Linaro Limited	Harston Mill, Harston, Cambridge, CB22 7GG	Software engineering collaboration	None ****	33.3	33.3

* Investment owned indirectly by the Company.

** The Group is considered to have significant influence over Arduino SA due to a material loan receivable and by influence over the entity's board of directors.

*** The Group is considered to have significant influence over Arm IOT Fund LP (Taiwan) by virtue of the composition of the fund's board of directors.

**** The Group is one of three Core Members of Linaro Limited; the Core Members jointly control the business.

All of the Group's associates and joint ventures are accounted for using the equity method in these consolidated financial statements as set out in the accounting policies note.

18 Associates and joint ventures (continued)

The summarised financial information detailed below, with reconciliation to the carrying amount of the Group's interest in Arm Technology (China) Co. Limited, is based on its financial statements prepared in accordance with IFRS.

Arm Technology (China) Co. Limited	**2020 £ 000**
Non-current assets	49,973
Cash and cash equivalents	280,223
Other current assets	197,520
Current assets	477,743
Total assets	527,716
Current liabilities	420,171
Non-Current liabilities	165
Total liabilities	420,336
Net assets	*107,380*

	Fair value of assets £ 000	**Group's ownership interest**	**Carrying value £ 000**
Net assets of associate at the proportion of Group ownership	107,380	47.3%	50,821
Group's share of unrecognised intangible assets	998,162	47.3%	472,415
Goodwill	169,437	47.3%	80,192
Carrying of the Group's interest in the associate	1,274,979		603,428

The Group's share of unrecognised intangible assets relates to the fair value of intangible assets measured in accordance with IFRS 3 'Business Combinations' that were measured at the date Arm Technology (China) Co. Limited ceased being a subsidiary (see note 28) and are not recognised in the IFRS financial statements of Arm Technology (China) Co. Limited. The Group recognises its share of amortisation in respect of these intangible assets in the share of results of associates and joint ventures within the income statement. The remaining useful life of these intangible assets is 39 years.

	2020 £'000
Revenue	492,719
Depreciation and amortisation expense	(4,989)
Other selling, general and administrative expenses	(441,192)
Interest income	167
Interest expense	(3,003)
Income tax	(4,430)
Profit from continuing operations	39,272
Other comprehensive Income	12
Total comprehensive income	39,284

Profit for the year arose entirely from continuing operations.

19 Investments

	2020 £ 000	2019 £ 000
Investments in equity instruments designated as FVTOCI		
Unlisted shares	106,054	57,686
Listed shares	358	-
	106,412	57,686
Loans receivable carried at amortised cost		
Loans to associates and joint ventures	17,971	18,669
Loans to other entities	2,500	3,255
	20,471	21,924
Total investments	126,883	79,610

Unlisted shares represent either direct or indirect, through a capital fund, investments in unlisted early-stage development enterprises which are generating value for shareholders through research and development activities, and most do not currently report profits.

Listed shares represent a direct investment in Cypress Semiconductor Corp, a semiconductor design and manufacturing company based in California, USA.

The fair value of these investments varies with the type of investment held. Direct investments are measured approximate to cost, except where external factors provide better evidence for valuation. Indirect investments are valued as a proportion of the fund's net asset value (NAV). All investments held by the Group are considered to be long-term to enable ecosystem growth, and are non-current assets. The Group has designated all investments in shares to be measured at FVTOCI.

The total amount of financial commitments to existing investees of the Group not provided for in the financial statements was £65.4 million (2019: £45.9 million).

Further information on the loans to associates and joint ventures is contained in note 37.

20 Inventories

	2020 £ 000	2019 £ 000
Finished goods and goods for resale	1,772	2,922

21 Contract assets

	2020	2019 Restated	1 April 2018 Restated
	£ 000	£ 000	£ 000
Contracts	65,369	69,063	71,675
Less: Loss allowance	-	-	(755)
Net contract assets	65,369	69,063	70,920
Current	60,087	63,709	60,991
Non-current	5,282	5,354	9,929
	65,369	69,063	70,920

Movement in the loss allowance in respect of contract assets:

	2020	2019
	£ 000	£ 000
Balance at 1 April	-	755
Additional provision	-	99
Reversal of amounts considered recoverable	-	(854)
Balance at 31 March	-	-

A reconciliation in the movement in contract assets is set out below:

	£ 000
Balance at 1 April 2019	69,063
Performance obligations satisfied during the period	106,905
Other adjustments	(8,716)
Transfers in the period from contract assets to trade receivables	(103,043)
Foreign exchange variances	1,160
Balance at 31 March 2020	65,369

Contract assets for the comparative year have been restated as a result of a prior period error. See note 39 for details regarding the restatement.

22 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	501,437	358,235
Less: Loss allowance	(2,597)	(2,435)
Net trade receivables	498,840	355,800
Other receivables	68,308	56,578
Prepayments	39,043	50,105
Accrued income	207,709	169,558
Current trade and other receivables	813,900	632,041
Other receivables	54,852	-
Prepayments	12,571	8,619
Non-current trade and other receivables	67,423	8,619
Total trade and other receivables	881,323	640,660

Accrued income relates to accrued royalties receivable in respect of sales made by third parties of products that incorporate the Group's IP.

Non-current Other receivables relate to payments made to a certain customer, which are intended to be realized against future royalty payments from the customer to Arm. Recovery of the payments is estimated to be highly probable but the assessment remains subject to future events.

Trade receivables
Trade receivables disclosed above are classified as financial assets measured at amortised cost.

Note 35 includes details on the Group's approach to mitigating credit risk in relation to trade receivables and other counterparties.

22 Trade and other receivables (continued)

Movement in the loss allowance in respect of trade receivables:

	2020 £ 000	2019 £ 000
Balance at 1 April	2,435	4,611
Additional provision	669	1,811
Amounts written off during the year as uncollectible	(259)	(1,133)
Reversal of amounts considered recoverable	-	(2,658)
Foreign exchange translation gains	(248)	(196)
Balance at 31 March	2,597	2,435

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing of impaired trade receivables:

	2020 £ 000	2019 £ 000
1-30 days	-	-
31-90 days	-	-
91-180 days	-	84
181-365 days	-	1,111
Over 1 year	2,597	1,240
	2,597	2,435

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

23 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate relevant to each tax jurisdiction.

The movement on the deferred tax balance is shown below:

	2020 £ 000	2019 £ 000
At 1 April	(123,625)	34,209
Transition to IFRS 16	1,609	-
At 1 April restated	(122,016)	34,209
Amount acquired within subsidiary undertakings	-	(15,630)
Income statement charge	(42,555)	(144,669)
Charge to other comprehensive income	(1,948)	(950)
Transfers from current tax assets	3,940	-
Exchange differences	987	3,415
At 31 March	(161,592)	(123,625)

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12) during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets

	Temporary differences relating to fixed assets £ 000	Tax losses and R&D tax credits carried forward £ 000	Temporary differences relating to liabilities £ 000	Total £ 000
At 1 April 2018	(3,847)	36,712	12,000	44,865
Amount acquired with subsidiary undertakings	5,563	-	-	5,563
Income statement (charge)/credit	(4,868)	(5,479)	24,739	14,392
Exchange differences	(140)	2,963	541	3,364
At 31 March 2019	(3,292)	34,196	37,280	68,184
Offsetting of deferred tax liabilities				(23,526)
At 31 March 2019 (after offsetting)				44,658
At 1 April 2019	(3,292)	34,196	37,280	68,184
Transition to IFRS 16	-	-	1,609	1,609
At 1 April 2019 restated	(3,292)	34,196	38,889	69,793
Transfers from current tax assets	-	-	3,940	3,940
Income statement credit/(charge)	9,755	(35,381)	(23,512)	(49,138)
Exchange differences	10	1,555	157	1,722
At 31 March 2020	6,473	370	19,474	26,317
Offsetting of deferred tax liabilities				(20,111)
At 31 March 2020 (after offsetting)				6,206

The deferred tax asset to be recovered after more than one year is £0.2 million (2019: £31.0 million).

23 Deferred tax (continued)

Deferred tax liabilities

	Amounts relating to intangible assets arising on acquisition £ 000	Amounts relating to revaluation of investments £ 000	Temporary differences relating to assets £ 000	Total £ 000
At 1 April 2018	10,452	-	204	10,656
Amount acquired with subsidiary undertakings	21,193	-	-	21,193
Income statement (credit)/charge	(3,015)	-	162,076	159,061
Charge to other comprehensive income	-	950	-	950
Exchange differences	(51)	-	-	(51)
At 31 March 2019	28,579	950	162,280	191,809
Offsetting of deferred tax assets				(23,526)
At 31 March 2019 (after offsetting)				168,283
At 1 April 2019	28,579	950	162,280	191,809
Income statement credit	(5,307)	-	(1,276)	(6,583)
Charge to other comprehensive income	-	1,948	-	1,948
Exchange differences	735	-	-	735
At 31 March 2020	24,007	2,898	161,004	187,909
Offsetting of deferred tax assets				(20,111)
At 31 March 2020 (after offsetting)				167,798

The deferred tax liability due after more than one year prior to offsetting is £169.9 million (2019: £174.4 million).

Deferred tax assets have been partially recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is not probable that the unrecognised portion of these assets will be recovered.

The amount of deferred tax assets unrecognised at 31 March 2020 was £106.8 million (2019: £11.4 million). The unrecognised deferred tax assets relate to losses and US Federal and California research and development tax credits. The losses and credits may remain unutilised due to restrictions imposed by local tax legislation and availability of relevant future profits.

No deferred tax has been recognised in respect of a further £88.2 million (2019: £75.2 million) of unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of these differences and either it is possible that such differences will not reverse in the foreseeable future or no tax is payable on the reversal.

24 Trade and other payables

	2020 £ 000	2019 £ 000
Trade payables	29,259	34,501
Other taxation and social security	13,588	13,285
Other payables	41,600	19,121
Accruals	370,112	297,487
Current trade and other payables	454,559	364,394
Trade payables	22,621	-
Accruals	69,895	77,034
Non-current trade and other payables	92,516	77,034
Total trade and other payables	547,075	441,428

25 Provisions

	2020 £ 000	2019 £ 000
Dilapidations provision	10,452	2,992
Legal provision	6,613	-
IDR provision	2,510	-
Restructuring provision	927	-
Onerous leases provision	-	1,034
	20,502	4,026

	Dilapidations provision £ 000	Legal provision £ 000	IDR provision £ 000	Restructuring provision £ 000	Onerous leases provision £ 000	Total £ 000
At 1 April 2019	2,992	-	-	-	1,034	4,026
Transfers*	-	-	1,616	-	-	1,616
Transition to IFRS 16	1,152	-	-	-	(1,034)	118
Additional provision	6,501	6,613	851	1,910	-	15,875
Reversal of provisions	(360)	-	-	-	-	(360)
Utilisation of provision	(23)	-	-	(983)	-	(1,006)
Unwinding of discount	164	-	-	-	-	164
Exchange difference	26	-	43	-	-	69
At 31 March 2020	10,452	6,613	2,510	927	-	20,502

* Transfers relate to amounts reclassified from trade and other payables during the year.

The dilapidations provision relates to costs to be incurred in returning leased assets to their original state at the end of the lease.

The legal provision relates to anticipated cash settlement regarding the construction of leasehold improvements.

The Indemnités de Départ à la Retraite ("IDR") provision relates to French retirement provisions.

The restructuring provision relates to a formally announced plan for a restructuring event. The amount represents the anticipated direct expenditures arising from the restructuring.

25 Provisions (continued)

The onerous leases provision in the prior year had arisen where the future economic benefit expected to be derived from use of certain leasehold properties was less than the non-cancellable future lease commitments.

26 Share capital

Number of shares authorised, issued and fully paid

	No. '000	2020 £ 000	No. '000	2019 £ 000
Ordinary shares of £0.001 each (2019: £1 each)	1,025,234	1,025	1,025	1,025

During the year, the company divided its 1,025,234 ordinary shares of £1 each into 1,025,234,000 ordinary shares of £0.001 each.

Rights, preferences and restrictions
There is a single class of ordinary shares which carry no right to fixed income. There are no restrictions on the distribution of dividends and the repayment of capital.

27 Capital and reserves

Share capital
Called up share capital represents the nominal value of shares that have been issued.

Share premium account
The share premium account includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Share based payments
The share based payments reserve includes the cumulative equity settled share based payment expense in respect of the RSU scheme net of any associated deferred taxes.

Capital reserve

In 2004 the premium on the shares issued by Arm Holdings plc (now known as SVF Holdco (UK) Limited) in part consideration for the acquisition of Artisan Components, Inc. was credited to reserves on consolidation in accordance with Section 131 of the Companies Act 1985. The reserve was classified as a capital reserve in Arm Holdings plc to reflect the nature of the original credit to equity arising on acquisition. Arm Limited acquired Artisan Components Inc. in 2005 under a common control business combination which was accounted for using the pooling of interests method. The assets and liabilities of Artisan Components, Inc. were recognised in the Arm Limited Group at their values as reflected in the Arm Holdings plc Group (refer to accounting policies) and, as a result, the capital reserve arises in the Arm Limited Group.

Translation reserve
Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve.

Investment revaluation reserve
The investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of investments in equity instruments designated at FVTOCI, net of cumulative gain/loss transferred to retained earnings upon disposal.

Retained earnings
Retained earnings includes all current and prior period retained profits and losses, net of dividends paid.

28 Disposal of subsidiary

During the current year, the Group has not disposed of any subsidiaries.

During the prior year, the Group disposed of a controlling stake in its 100% subsidiary Arm Technology (China) Co. Limited ("Arm China") for £637.2 million. Following this disposal the Group retained an equity interest of 47.33% in Arm Technology (China) Co. Limited and this company is now treated as an associate entity. This arrangement (referred to as the "China JV") forms part of the Group's strategy to accelerate growth in the Chinese market.

29 Acquisition of subsidiaries

During the current year, the Group has not acquired any subsidiaries.

During the prior year, the Group acquired three subsidiaries; Arm Cloud Services Limited (formerly Stream Technologies Limited) for consideration of £27.5 million; Treasure Data Inc. for £383.3 million; and WigWag Inc. for total consideration of £9.1 million.

Goodwill in respect of Arm Cloud Services Limited and WigWag Inc has been remeasured during the period, see note 13 for further details.

30 Notes to the cash flow statement

Reconciliation of net cash from operating activities

	2020 £ 000	2019 Restated* £ 000
(Loss)/profit for the year	(62,854)	1,015,307
Adjustments for:		
Share of (gains)/losses of associates and joint ventures	(9,735)	1,086
Finance income	(16,831)	(14,264)
Gain on disposal of subsidiary	-	(1,194,192)
Loss on disposal of associate	332	-
Finance costs	8,427	324
Equity-settled share based payment charge	7,411	-
Loss/(gain) on derivatives	2,270	(13,123)
Income tax expense	108,345	267,936
Depreciation of property, plant and equipment	54,946	51,571
Depreciation of right-of-use assets	41,163	-
Amortisation of intangible assets	91,257	50,946
Impairment of loans receivable	2,283	1,502
(Gain)/loss on disposal of tangible assets	(93)	7,244
Loss on disposal of intangible assets	5,853	-
Loss on derecognition of right-of-use assets	162	-
Movement in provisions	16,194	-
Operating cash flows before movements in working capital	249,130	174,337
Decrease/(increase) in inventories	1,150	(766)
Decrease/(increase) in contract assets	3,694	(12,281)
Increase/(decrease) in contract liabilities	52,713	(14,899)
Increase in receivables	(197,960)	(143,915)
Increase in payables	11,748	93,798
Cash generated by operations	120,475	96,274
Income taxes paid	(53,457)	(121,734)
Interest paid	(3,443)	(331)
Net cash from/(used in) operating activities	63,575	(25,791)

* Contract assets and contract liabilities have been restated as a result of a prior period error. Details of this adjustment are disclosed in note 39. In addition, the Group has initially applied IFRS 16 at 1 April 2019. Under the transition methods chosen, comparative information has not been restated. See note 2.

Additions to machinery and equipment during the prior year amounting to £3.2 million were financed by leases. In the current year, additions financed by leases are separately presented in the movements of right-of-use assets (see note 16).

Cash and cash equivalents

	2020 £ 000	2019 £ 000
Cash and cash equivalents	894,710	1,067,231

30 Notes to the cash flow statement (continued)

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Treasury deposits relate to deposits with a maturity of between three and twelve months. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated balance sheet as shown above.

Reconciliation of movements in liabilities arising from financing activities
The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Lease liabilities £ 000	Finance lease liabilities £ 000	Total £ 000
As at 1 April 2018	-	13,355	13,355
Cashflows	-	(12,484)	(12,484)
New leases signed	-	4,552	4,552
As at 31 March 2019	-	5,423	5,423
Transition to IFRS 16 (note 2)	103,114	(5,423)	97,691
New leases signed	156,547	-	156,547
Cashflows	(35,021)	-	(35,021)
Foreign exchange differences	4,201	-	4,201
Accrued interest	4,820	-	4,820
As at 31 March 2020	233,661	-	233,661

31 Contingent liabilities

Group and Company

Data breach

In December 2019, Arm discovered that a customer had illegally accessed and downloaded certain prohibited products. Arm immediately commenced an internal investigation, confirming the downloads, cut off all access to the customer, and notified the Bureau of Industry and Security of the US Department of Commerce of an Initial Voluntary Disclosure in connection with this unpermitted activity. Arm subsequently issued a cease and desist to the customer in question with a request to stop using and to delete all related products that had been downloaded without permission, which was confirmed. The investigation is ongoing which will include remediation of all IT systems and related process to ensure such unpermitted activity cannot be repeated by any customer in the future. Opinion from outside counsel considers any issuance of fines or penalties by the US Government to be possible but not likely under the circumstances, and restrictions in the Company's business associated with the investigation to be remote.

32 Share based payments

At 31 March 2020, the Group had the following share based payment arrangements:

i) Restricted stock unit plan

In December 2019, an equity-settled share based payment arrangement was put in place for all employees of the Group. Employees may elect not to participate in the scheme.

Each employee restricted stock unit (RSU) converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the restricted stock units. The restricted stock units carry neither rights to dividends nor voting rights.

These awards are measured in accordance with IFRS 2. RSUs were priced using the Monte Carlo option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability and exercise restrictions (including the probability of meeting market conditions attached to the RSU).

The vesting period is 4.5 years. Awards are forfeited if the employee leaves the Group before the RSUs vest.

Grant Date	**Dec 2019**
Weighted average share price	£10.66
Exercise price	£nil
Expected volatility	30%
Vesting period	4.5 years
Expected dividends	-
Risk free interest rate	1.62%

Volatility is based on the average enterprise value volatility of the IoT and semiconductors markets.

	2020
Number of RSUs granted under the plan to participating employees during the financial year ended 31 March 2020	16,596,749
Number of RSUs forfeited during the financial year	(204,127)
Outstanding at the end of the year	16,392,622

During the year ended 31 March 2020 the total charge to the income statement in respect of this scheme was £7.4 million (2019: £nil). At 31 March 2020 the amount recorded within equity is £7.4 million (2019: £nil).

There were no cancellations or modifications to the awards during the financial year ended 31 March 2020.

32 Share based payments (continued)

ii) Phantom Share programmes (cash-settled)

In April 2017 a cash-settled share based payment arrangement was put in place for certain of the Group's employees who are members of the Executive Committee. Under this arrangement the employees are granted a cash award annually on 1 April which vests over a 3-year service period. The cash amount, which the employee is entitled to receive if employed at the end of the 3-year period, is directly linked to the percentage change in share price of the Group's ultimate parent undertaking, SoftBank Group Corp., and is also linked to certain other Group strategic performance conditions. The Group strategic performance conditions are in the nature of non-market based vesting conditions, as a result they do not affect the calculation of the fair value of the award at each reporting date.

The Group strategic performance conditions are operational in nature; they measure performance in areas such as product development, customer wins and market share across different technologies and markets. The measures are linked directly to the Group's strategic objectives, rather than any financial measures, and they are not linked to any change in the share price of the ultimate parent undertaking.

The weighted average fair value of the awards is measured at each reporting date using the Black-Scholes model. Expected volatility and dividend yield is based on the historical share price volatility and dividend yield of SoftBank Group Corp. over the past five years. The inputs used at the balance sheet date are as follows:

Grant Date	**01 Apr 2019**	**01 Apr 2018**	**01 Apr 2017**
SoftBank Group Corp. share price	JPY 3,788	JPY 3,788	JPY 3,788
SoftBank Group Corp. dividend yield	0.69%	0.69%	0.69%
Exercise price	£nil	£nil	£nil
Expected volatility	38%	38%	38%
Vesting period	3 years	3 years	3 years
Risk free interest rate	0.64%	0.64%	0.64%

These awards have no exercise price, however for the purposes of the Black-Scholes model they are deemed to have an exercise price of JPY 0.001.

During the year ended 31 March 2020 the total charge to the income statement in respect of this scheme was £1.4 million (2019: £2.0 million). At 31 March 2020 there was a liability for share based payments of £4.0 million (2019: £2.6 million). The value of the awards that have vested, but are unpaid, as 31 March 2020 is £2.1m (2019: nil).

33 Retirement benefit schemes

The Group contributes to defined contribution plans substantially covering all employees in Europe and the US and to government pension schemes for employees in Japan, South Korea, Taiwan, PR China, Israel and India. The Group contributes to these plans based upon various fixed percentages of employee compensation, and such contributions are expensed as incurred.

The total cost charged to the income statement for the year of £46.0 million (2019: £42.5 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2020, contributions of £7.6 million (2019: £6.2 million) due in respect of the current reporting period had not been paid over to the schemes.

34 Contract liabilities

	2020	2019 Restated	1 April 2018 Restated
	£ 000	£ 000	£ 000
Amounts related to contracts	162,136	109,423	115,552
Current	81,555	51,869	69,331
Non-current	80,581	57,554	46,221
	162,136	109,423	115,552

A reconciliation in the movement in contract liabilities is set out below:

	2020 £ 000
Balance at 1 April 2019	109,423
Cash received in advance of performance	338,100
Other adjustments	(640)
Amounts included in contract liabilities that was recognised as revenue during the period:	
of which included in the opening balance	(58,848)
of which not included in the opening balance	(224,043)
Foreign exchange variances	(1,856)
Balance at 31 March 2020	162,136

Contract liabilities for the comparative year have been restated as a result of a prior period error. See note 39 for details regarding the restatement.

35 Financial instruments

(a) Classification of financial instruments

Financial assets:	Carrying amount		Fair value	
	31 Mar 2020 £ 000	31 Mar 2019 £ 000	31 Mar 2020 £ 000	31 Mar 2019 £ 000
Amortised cost				
Current assets				
Cash, cash equivalents and Treasury deposits	895,139	1,067,654	895,139	1,067,654
Accounts receivable (gross of impairment provision)	501,437	358,235	501,437	358,235
Contract assets	60,087	63,709	60,087	63,709
Other receivables	56,464	-	56,464	-
	1,513,127	1,489,598	1,513,127	1,489,598
Non-Current assets				
Loans and receivables (note 19)	20,471	21,924	20,471	21,924
Contract assets	5,282	5,354	5,282	5,354
	25,753	27,278	25,753	27,278
Total assets measured at amortised cost	1,538,880	1,516,876	1,538,880	1,516,876
FVTPL (mandatorily measured)				
Current assets				
Embedded derivatives (asset)	5,856	9,589	5,856	9,589
	5,856	9,589	5,856	9,589
Non-Current assets				
Embedded derivatives (asset)	6,259	-	6,259	-
	6,259	-	6,259	-
Total assets measured at FVTPL	12,115	9,589	12,115	9,589
FVTOCI (designated)				
Non-Current assets				
Listed equity securities	358	-	358	-
Unlisted equity securities	106,054	57,686	106,054	57,686
	106,412	57,686	106,412	57,686
Total assets measured at FVTOCI	106,412	57,686	106,412	57,686
Current financial assets	1,518,983	1,499,187	1,518,983	1,499,187
Non-current financial assets	138,424	84,964	132,165	84,964
Total financial assets	1,657,407	1,584,151	1,651,148	1,584,151

Arm Limited

Notes to the Consolidated Financial Statements (continued)
For the Year Ended 31 March 2020

35 Financial instruments (continued)

(a) Classification of financial instruments (continued)

Financial liabilities:	Carrying amount		Fair value	
	31 Mar 2020 £ 000	31 Mar 2019 £ 000	31 Mar 2020 £ 000	31 Mar 2019 £ 000
Amortised cost				
Current liabilities				
Accounts payable	29,259	34,501	29,259	34,501
Accrued and other liabilities *	352,013	343,260	352,013	343,260
Lease liabilities **	31,524	-	31,524	-
Finance lease liabilities **	-	5,012	-	5,012
	412,796	382,773	412,796	382,773
Non-Current liabilities				
Accounts payable	22,621	-	22,621	-
Accrued and other liabilities *	69,895	9,397	69,895	9,397
Lease liabilities **	202,137	-	202,137	-
Finance lease liabilities **	-	411	-	411
	294,653	9,808	294,653	9,808
Total liabilities measured at amortised cost	707,449	392,581	707,449	392,581
FVTPL (mandatorily measured)				
Current liabilities				
Fair value of currency exchange contracts	4,796	-	4,796	-
	4,796	-	4,796	-
Total liabilities measured at FVTPL	4,796	-	4,796	-
Current financial liabilities	417,592	382,773	417,592	382,773
Non-current financial liabilities	294,653	9,808	294,653	9,808
Total financial liabilities	712,245	392,581	712,245	392,581

* Non-financial liabilities are excluded from the accrued and other liabilities balance, as this analysis is required only for financial instruments.

** The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

35 Financial instruments (continued)

(b) Valuation of financial instruments
Valuation hierarchy

To provide an indication about the reliability of the inputs used in determining fair value the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows the below tables.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 March 2020 and 31 March 2019 on a recurring basis:

At 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Financial assets				
Embedded derivatives - current	-	5,856	-	5,856
Embedded derivatives - non-current	-	6,259	-	6,259
Financial assets at fair value through other comprehensive income (FVTOCI)				
Listed equity securities	358	-	-	358
Unlisted equity securities	-	-	106,054	106,054
Total financial assets	358	12,115	106,054	118,527

At 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Financial assets				
Embedded derivatives	-	9,589	-	9,589
Financial assets at fair value through other comprehensive income (FVTOCI)				
Unlisted equity securities	-	-	57,686	57,686
Total financial assets	-	9,589	57,686	67,275

At 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**
Financial liabilities				
Fair value of currency exchange contracts	-	4,796	-	4,796
Total financial liabilities	-	4,796	-	4,796

The Group does have any financial liabilities measured at fair value as at 31 March 2019.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

35 Financial instruments (continued)

(b) Valuation of financial instruments (continued)

There have not been any transfers of financial instruments between different levels of the fair value hierarchy during the year.

Valuation techniques used to determine fair value
Specific valuation techniques used to value instruments include:
- the use of quoted market prices or dealer quotes for similar instruments;
- for foreign currency forwards: present value of future cash flows based on the forward exchange rates at the balance sheet date;
- for embedded derivatives: present value of future cash flows based on the forward exchange rates at the balance sheet date;
- the fair value of investment funds are measured using the latest net asset value of the fund available as at the balance sheet date;
- unlisted equity investments: estimated fair value of the unlisted equity investments approximate to cost less any permanent diminution in value (based on management's estimate of forecast profitability and achievement of set objectives by the relevant entity), except where independent valuation information is obtained e.g. through the occurrence of funding or other transactions in the relevant entity's equity instruments.

Embedded derivatives
Embedded derivatives relate to foreign exchange agreements implicit in sales contracts which are denominated in a currency that is not the functional currency of either party.

Embedded derivatives are measured at fair value on a recurring basis and may give rise to either a financial asset or financial liability in any given year due to changes in fair value.

Embedded derivatives are fair valued using forward exchange rates that are quoted in an active market.

The fair value of currency exchange contracts is estimated by discounting expected future cash flows at prevailing interest rates, and by applying year-end exchange rates.

Unlisted equity securities
Unlisted investments relate to unlisted equity investments classified as non-current assets. The estimated fair value of the unlisted equity investments approximates to cost less any permanent diminution in value (based on management's estimate of forecast profitability and achievement of set objectives by the relevant entity), except where independent valuation information is obtained, e.g. through the occurrence of funding or other transactions in the relevant entity's equity instruments. Any change to the fair value is recognised as part of other comprehensive income.

Whilst it is possible that a key assumption in the level 3 calculation could change, there are no reasonably foreseeable changes to key assumptions that would result in a significant change in fair value.

35 Financial instruments (continued)

(b) Valuation of financial instruments (continued)

Fair value measurements using significant unobservable inputs (level 3)

	Unlisted equity securities £ 000
At 31 March 2019	57,686
Acquisitions	36,769
Investment revaluation gains recognised in other comprehensive income	11,599
At 31 March 2020	106,054

(c) Maturity of financial liabilities

The table below analyses the Group's financial liabilities (excluding embedded derivatives) into relevant maturity Groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than six months £ 000	Between six months and one year £ 000	Between one and two years £ 000	Over two years £ 000
At 31 March 2020				
Trade payables	29,259	-	20,660	3,276
Accrued and other liabilities	345,061	6,951	47,722	17,410
Lease liabilities	18,005	18,005	34,688	196,412
At 31 March 2019				
Trade payables	34,501	-	-	-
Accrued and other liabilities	230,972	22,293	48,613	52,195
Finance lease liabilities	3,690	1,322	411	-

Loans and receivables

At 31 March 2020 the Group had loans receivable from associates and joint ventures with a carrying value of £18.0 million (2019: £18.7 million). See note 37 for further details.

At 31 March 2020 the Group had loans receivable from other parties with a carrying value of £2.5 million (2019: £3.2 million).

The carrying value of total loans amounted to £20.5 million (2019: £21.9 million), with £1.1 million being recognised as interest receivable during the year ended 31 March 2020 (2019: £1.2 million).

The Group had no borrowings during the year ended 31 March 2020 (2019: £nil).

The effective interest rate on short-term deposits and similar instruments outstanding at 31 March 2020 was 0.37% (2019: 0.86%) and these deposits have an average maturity of 78 days (2019: 12 days).

There were no long-term deposits and similar instruments outstanding at 31 March 2020 (2019: £nil).

35 Financial instruments (continued)

(c) Maturity of financial liabilities (continued)

Derivative financial instruments
This table analyses the Group's derivative financial instruments into relevant maturity Groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Amounts due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than three months £ 000	Between three months and six months £ 000	Between six months and one year £ 000	Over one year £ 000
At 31 March 2020				
Currency exchange contracts measured at FVTPL				
Outflow	-	137	269	-
Inflow	(3,844)	(1,136)	(221)	-

There were no derivative financial liabilities measured at FVTPL for as at 31 March 2019.

The net loss on foreign currency forwards not qualifying as hedges for the year amounted to £6.8 million (2019: £7.9 million), of which £2.0 million (2019: £7.9 million) was fully realised.

(d) Risk management of financial instruments

The Group is exposed to financial risks, including those relating to the fluctuation in foreign exchange and interest rates, the risk of counterparty credit default, and being unable to meet liabilities as these fall due.

Financial risk management is carried out under policies approved and delegated by the Board of Directors.

Foreign exchange risk
The Group is exposed to foreign exchange risk in the following ways:
- transactional exposure that arises on revenues and expenses where these are denominated in a currency other than the functional currency of the transacting entity. The Group mitigates a proportion of this risk through the use of currency forward contracts;
- translational exposure arising on the revaluation of net investments in the consolidated Group accounts, where these are not denominated in pounds sterling
- loans to subsidiaries in currencies other than the Group's functional currency.

The impact of 10% depreciation of US Dollar against £ is as follows:

	2020 Income gain/(loss) £ 000	2020 Equity gain/(loss) £ 000	2019 Income gain/(loss) £ 000	2019 Equity gain/(loss) £ 000
10% depreciation of US Dollar against £ (2019: 10%)	(113,552)	-	(42,081)	-

The movements stated reflects the impact to profit or to other comprehensive income after tax.

The 10% depreciation rate used in the sensitivity analysis represents management's best estimate of the volatility in future interest rates. Management do not expect USD to depreciate against GBP by more than 10% in light of the current macro-economic conditions.

35 Financial instruments (continued)

(d) Risk management of financial instruments (continued)

Interest rate risk

The Group is exposed to interest rate risk arising on interest-bearing assets that it holds, including cash and cash equivalents, treasury deposits and similar instruments, loans and receivables and loans to associates and joint ventures.

The impact of 1% increase in interest rates is as follows:

		2020		2019
	Income gain/(loss) £ 000	Equity gain/(loss) £ 000	Income gain/(loss) £ 000	Equity gain/(loss) £ 000
1% decrease in interest rates (2019: 1%)	(6,978)	-	(8,527)	-

The movements stated reflects the impact to profit or to other comprehensive income after tax.

The 10% depreciation rate used in the sensitivity analysis represents management's best estimate of the volatility in future interest rates. Management do not expect USD to depreciate against GBP by more than 10% in light of the current macro-economic conditions.

The range of interest rates used in the sensitivity analysis represents management's best estimate of the volatility in future interest rates. Management do not expect interest rate to increase by more than 1% in the foreseeable future in light of the current macro-economic conditions.

Credit risk

The Group is exposed to credit risk arising from cash and cash equivalents, treasury deposits, derivative financial instruments and trade and other receivables. The Group's maximum exposure to credit risk is limited to the carrying amount of these assets.

For financial assets (other than trade and other receivables), the Group holds positions with an approved list of investment grade rated counterparties and monitors the exposures and counterparty credit risk on a regular basis.
For trade and other receivables, the credit risk is managed through the use of mitigating controls including the use of credit checks on customers.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss (ECL) allowance for all trade receivables.

To measure the ECL, trade receivables have been Grouped based on shared credit risk characteristics and the number of days past due. Expected loss rates are intended to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The Group has determined that market borrowing rates (across a range of jurisdictions in which the Group's customers operate) and a risk multiplier linked to debt ageing are the most relevant variables in determining ECL rates. Expected loss rates are as follows:

Ageing (days)	Expected loss rate
0-90	-
91-120	4.75%
121-180	5.94%
181-360	7.13%
> 360	14.25%

35 Financial instruments (continued)

(d) Risk management of financial instruments (continued)

Expected credit losses (continued)

Certain trade receivables balances have been assigned a nil% loss rate regardless of ageing. This is based on specific factors affecting the trading relationship which indicate that the Group's credit risk is negligible.

The Group's overall expected credit loss in respect of trade receivables at 31 March 2020 was £2.6 million (31 March 2019: £2.4 million).

The Group has reviewed other balances which are also subject to impairment requirements of IFRS 9, including contract assets and cash and cash equivalents, and there was no identified impairment loss at 31 March 2020 (31 March 2019: £nil).

At 31 March 2020 one customer (2019: two customers) accounted for over 10% of accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group finances its liquidity position through a combination of retained profits, and holding of cash and cash equivalents.

36 Events after the balance sheet date

Group and Company

On 21 July 2020 the Group invested $35.0 million in Ampere Computing Holdings LLC.

Subsequent to the year ended 31 March 2020 Arm has announced plans to reorganise its business into IPG and ISG business units that shall be managed as independent operating units of Arm. The group is evaluating strategic alternatives for the ISG business, including the potential future spin-out as an independent entity within the Softbank Group. As of the approval date of these financial statements Arm has not committed to any specific course of action for ISG.

The Group changed its presentation currency from GBP to USD from 1 April 2020. The change was made to reflect that USD is predominant currency in the Group.

For Arm Limited, USD is the functional currency of the company from 1 April 2020. The change was made to reflect the primary economic environment in which Arm Limited operates and USD has become the currency in which the entity primarily generates and expends cash. This change is implemented with prospective effect. The change of presentational currency will be applied retrospectively for comparative figures for 2020. Currency translation effects for the comparative figures from functional currency to presentation currency USD in 2020 will be booked as translation differences towards equity.

On 13 September 2020 NVIDIA Corporation signed a definitive agreement to acquire a controlling shareholding in Arm Limited from SoftBank Group Corp.

The signing of the Nvidia agreement has prompted a change in the accounting of RSU share-based payments from equity-settled to cash-settled.

The Group's investment in Arm Technology (China) Co. Limited ("Arm China"), a foreign associate accounted for by the equity method, is carried at £603.4 million on the consolidated balance sheet as at 31 March 2020, and the Group's licence revenue earned from sales to Arm China of £144.4m and share of the associate's total comprehensive income of £18.6 million are included in the consolidated income statement for the year then ended. At 31 March 2020 the Group had outstanding receivable due from Arm China of £395.2m, of which £208.3m relates to licence revenue. Allegations have been made post year-end about the conduct of certain members of senior management in Arm China, including those in a position to influence financial reporting in Arm China, with one of the allegations relating to the appropriateness of two payments in 2019 which were charged against profits. These allegations are being investigated by Arm China's Board of Directors, with the investigation remaining on-going at the time of issuance of these financial statements. Additionally, there were certain disputes around potential conflicts of interest and breaches of duties that arose during June – September 2020 between the former CEO of Arm China and the Arm China's Board of Directors that, at the time of the issuance of these financial statements, were in the process of being resolved.

Due to circumstances described, the Directors of the Group were unable to sufficiently determine whether any adjustments to aforementioned amounts or disclosure in the financial statements were necessary as a result of any non-adjusting or adjusting events related to Arm China that may have arisen during or subsequent to the year ended 31 March 2020.

37 Related party transactions

The Company has taken advantage of the available exemption from disclosing transactions with other companies within the Group which are wholly owned. Related party transactions and balances with companies related by virtue of common control in the Group headed by the ultimate parent company, SoftBank Group Corp. or by virtue of the Group's significant influence over that company, are as follows:

Transactions with associates

Arm Technology (China) Co. Limited

In the prior year, the Group disposed of a controlling stake in its 100% subsidiary Arm Technology (China) Co. Limited ("Arm China") for £637.2 million. Following this disposal the Group retained an equity interest of 47.33% in Arm Technology (China) Co. Limited and this company is now treated as an associate entity. This arrangement (referred to as the "China JV") forms part of the Group's strategy to accelerate growth in the Chinese market.

A substantial proportion of customer contracts previously held by Arm China have been novated to the China JV; under such contracts the Group is entitled to a share of revenue earned by the China JV. Where contracts have not been novated from Arm China to the China JV, the Group is obliged to share a proportion of the revenue with the China JV.

Under the terms of the joint venture agreement Arm has recognised share of revenues amounting to £389.5 million during the year ended 31 March 2020 (2019: £322.6 million).

At 31 March 2020 the Group was owed a net receivable of £395.2m (£398.4 million receivable less £3.2m million payable) by the China JV (2019: net receivable of £114.9 million comprising of £128.6 million receivable less £13.7 million payable).

During the year ended 31 March 2020 the Group leased assets to the China JV. The Group recognised revenue of £0.7 million from the leased assets (2019: £0.7 million).

Linaro Limited

During the year ended 31 March 2020 the Group incurred subscription costs of £7.5 million from Linaro Limited ("Linaro"), an associated company of the Group (2019: £7.1 million). As at 31 March 2020 £nil (2019: £nil) was owed to Linaro.

In addition, the Group provided consulting and other services to Linaro during the year amounting to £1.9 million (2019: £1.8 million). All fees have been charged in accordance with the terms of the agreement. As at 31 March 2020 £0.6 million (2019: £0.6 million) was owed to the Group.

Loans to related parties

	2020 £ 000	2019 £ 000
Loans to associates and joint ventures:		
Arduino SA	17,971	18,669
Trustonic Limited	-	-
	17,971	18,669

In the year to 31 March 2018, the Group issued a 4-year loan of $25 million to Arduino SA, an associate entity. During the year ended 31 March 2020 €3.0 million (2019: €3.0 million) of this loan balance was converted into an equity interest in Arduino SA. Interest is receivable at a rate comparable to the average commercial rate of interest.

The Group's equity investment in Trustonic Limited was written-down to £nil carrying value due to recognition of share of losses, therefore subsequent share of losses has been written against the loan balance due from Trustonic Limited. During the year the loan balance was written down to £nil, through a combination of impairment and losses recognised.

37 Related party transactions (continued)

Remuneration of key management personnel

The aggregate remuneration of the key management personnel of the Group (including the directors), is set out below:

	2020 £ 000	2019 £ 000
Short-term employee benefits	12,132	9,554
Post-employment benefits	100	227
Other long-term benefits	(15,320)	15,048
Termination benefits	385	-
Employer social security	(323)	2,545
Share-based payments	1,953	1,650
	(1,073)	29,024

During the year, a long-term performance-based award ('EOA') for Arm's key management was replaced in part, by the Group's new equity-settled share based payments scheme (see note 32). The EOA accrual to date was significantly reduced as a result (constituting a change of accounting estimate) and consequently a credit was recognised in the income statement which resulted in the amount being disclosed as key management remuneration being negative.

The change in accounting estimate has impacted the 'Other long-term benefits' category as disclosed above. The effect of the accounting estimate change resulted in a credit to profit and loss of £20.3 million, with the remaining charge of £4.9 million being attributed to other long-term schemes not affected by this change.

The total amounts for directors' remuneration were as follows:

	2020 £ 000	(As restated) 2019 £ 000
Salaries, fees, bonuses and benefits in kind	3,663	4,113
Amounts receivable under long-term incentive schemes	2,798	2,341
Money purchase pension contributions	90	199
	6,551	6,653

In respect of the highest paid director:

	2020 £ 000	(As restated) 2019 £ 000
Salaries, fees, bonuses and benefits in kind	2,487	2,381
Amounts receivable under long-term incentive schemes	2,148	1,493
Money purchase pension contributions	-	199
	4,635	4,073

The comparative figures for Directors' remuneration have been restated due to the error of including a long-term incentive scheme with performance criteria over multiple periods. This long-term incentive scheme has performance related criteria over the period of the award, and should have only been recognised when all related criteria had been met.

No director (2019: three directors) had accrued benefits during the year ended 31 March 2020 under a money purchase pension scheme as a result of their services to the Group.

37 Related party transactions (continued)

Included above in the amounts receivable under long-term incentive schemes are amounts recognised in the year attributable to directors under cash-settled and equity-settled share based payments arrangements (refer to note 32 for further details).

During the year ended 31 March 2020 none of the directors (2019: none) exercised restricted stock units or had share awards vest.

38 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is SoftBank Group Capital Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is considered to be SoftBank Group Corp., a company registered in Japan.

SoftBank Group Corp. heads the largest group of undertakings, including Arm Limited, for which consolidated financial statements are prepared. Arm Limited prepates the smallest group of undertakings for which consolidated financial statements are prepared. Copies of the ultimate parent's consolidated financial statements are available from 1-9-1 Higashi-shimbashi, Minato-ku, Tokyo 105-7303, Japan.

39 Prior period error

During the year, the Group and Company identified that performance obligations in respect of certain subscription revenue arrangements had been considered and treated in the prior year financial statements as fully satisfied. Upon further investigation, the Group and Company identified that certain promises within these arrangements had not yet been delivered, and should have been deferred.

In addition, the Group and Company identified certain promises that had been considered and treated in the prior year financial statements as not satisfied. However, further investigation revealed that a number of these contracts were considered closed with the associated IP being delivered to the relevant customers. Consequently, the Group and Company should have recognised the transaction price attached to those performance obligations. This adjustment did not have an impact on taxation in the current comparative year.

In addition to the subscription revenue adjustment, the Group and Company identified that the maturity of contract assets and liabilities did not reflect the Group's business model. Consequently, certain contract assets and liabilities have been reclassified as non-current balances to reflect an appropriate maturity of these balances. This reclassification did not impact equity or the statement of comprehensive income in either the current or comparative year.

The impact on the consolidated balance sheet as at 1 April 2018 is set out below:

Extract of the Consolidated Balance Sheet as at 1 April 2018	**1 April 2018 As previously reported £ 000**	**Adjustment £ 000**	**1 April 2018 As Restated £ 000**
Contract assets	11,096	(1,167)	9,929
Total Non-current assets	1,285,845	(1,167)	1,284,678
Contract assets	82,391	(21,400)	60,991
Total Current assets	1,639,299	(21,400)	1,617,899
Total Assets	2,925,144	(22,567)	2,902,577
Contract liabilities	87,494	(18,163)	69,331
Total Current liabilities	469,791	(18,163)	451,628
Contract liabilities	32,514	13,707	46,221
Total Non-current liabilities	78,244	13,707	91,951
Total liabilities	548,035	(4,456)	543,579
Net assets	2,377,109	(18,111)	2,358,998
Retained earnings	1,387,891	(18,111)	1,369,780
Total equity	2,377,109	(18,111)	2,358,998

There was no impact on the profit or loss or total comprehensive income for the year to 31 March 2019.

39 Prior period error (continued)

The adjustment also impacted the financial position of the individual company accounts of Arm Limited. The impact on the income statement and balance sheet of Arm Limited was the same as the impact on the Group. Consequently, the comparative company balance sheet has also been restated, with net assets and equity being reduced by £18,111k.

The impact on the consolidated balance sheet as at 31 March 2019 is set out below:

Extract of the Consolidated Balance Sheet as at 31 March 2019	**31 March 2019 As previously reported £ 000**	**Adjustment £ 000**	**31 March 2019 As Restated £ 000**
Contract assets	6,521	(1,167)	5,354
Total Non-current assets	2,424,039	(1,167)	2,422,872
Contract assets	85,109	(21,400)	63,709
Total Current assets	1,810,299	(21,400)	1,788,899
Total Assets	4,234,338	(22,567)	4,211,771
Contract liabilities	70,032	(18,163)	51,869
Total Current liabilities	461,294	(18,163)	443,131
Contract liabilities	43,847	13,707	57,554
Total Non-current liabilities	292,159	13,707	305,866
Total liabilities	753,453	(4,456)	748,997
Net assets	3,480,885	(18,111)	3,462,774
Retained earnings	2,403,198	(18,111)	2,385,087
Total equity	3,480,885	(18,111)	3,462,774

The prior period error disclosed in this note has been treated as a restatement in the prior period under IAS 8 requirements. The error is not material to the Group's financial results however management consider it appropriate to make this restatement as it relates to adoption of a new Standard, IFRS 15.

Arm Limited

Company Balance Sheet (Registered Number: 02557590)
As at 31 March 2020

	Note	2020 £ 000	2019 Restated* £ 000
Non-current assets			
Intangible assets	41	202,259	161,769
Property, plant and equipment	42	94,261	70,212
Right-of-use assets	43	137,261	-
Investments in subsidiaries	44	638,724	621,649
Investments in associates and joint ventures	45	36,162	30,797
Other investments	46	31,085	29,767
Trade and other receivables	49	54,852	-
Contract assets	48	5,282	5,354
Embedded derivatives (asset)	35	6,259	-
Deferred tax assets	50	16,214	8,024
		1,222,359	927,572
Current assets			
Inventories	47	1,466	2,568
Contract assets	48	56,877	61,708
Trade and other receivables	49	945,989	657,474
Current tax assets		9,936	18,072
Cash and cash equivalents		794,074	1,003,057
Embedded derivatives (asset)	35	5,856	9,589
		1,814,198	1,752,468
Total assets		3,036,557	2,680,040
Current liabilities			
Trade and other payables	51	396,535	361,724
Obligations under finance leases	43	-	60
Lease liabilities	43	9,150	-
Contract liabilities	52	65,961	44,653
Provisions	53	16,175	3,175
Fair value of currency exchange contracts	35	4,796	-
		492,617	409,612
Net current assets		1,321,581	1,342,856
Non-current liabilities			
Deferred tax liabilities	50	161,258	164,720
Lease liabilities	43	128,028	-
Contract liabilities	52	80,581	57,554
Liability for share based payments		2,045	1,531
		371,912	223,805
Total liabilities		864,529	633,417
Net assets		2,172,028	2,046,623

Arm Limited

Company Balance Sheet (Registered Number: 02557590)

As at 31 March 2020

	Note	2020 £ 000	2019 £ 000
Equity			
Share capital	26,27	1,025	1,025
Share premium account	27	469,895	469,895
Share based payments	27,32	7,411	-
Other reserves	54	37,993	37,993
Investment revaluation reserve	27	675	(1,704)
Retained earnings	27	1,655,029	1,539,414
Total equity		2,172,028	2,046,623

The Company has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

*The comparatives were restated as a result of a prior period error. See note 39 and 55 for details regarding the restatement.

The Company reported a profit for the financial year ended 31 March 2020 of £110.6 million (2019: profit of £464.8 million).

The financial statements were approved by the board of directors and authorised for issue on 22 October 2020. They were signed on its behalf by:

G Budd

President and Chief Operating Officer

Arm Limited
Company Statement of Changes in Equity
For the Year Ended 31 March 2020

	Share capital £ 000	Share premium account £ 000	Share based payments £ 000	Other reserves £ 000	Investment revaluation reserve £ 000	Retained earnings £ 000	Total equity £ 000
Balance at 1 April 2018 (as previously reported)	1,025	469,895	-	37,993	-	1,092,751	1,601,664
Correction of prior period error* (note 39)	-	-	-	-	-	(18,111)	(18,111)
Balance at 1 April 2018 (As restated)	1,025	469,895	-	37,993	-	1,074,640	1,583,553
Profit for the year	-	-	-	-	-	464,774	464,774
Other comprehensive expense for the year:							
Investment revaluation	-	-	-	-	(1,387)	-	(1,387)
Deferred tax on investment revaluation	-	-	-	-	(317)	-	(317)
Total comprehensive income for the year	-	-	-	-	(1,704)	464,774	463,070
Balance at 31 March 2019 (restated*)	1,025	469,895	-	37,993	(1,704)	1,539,414	2,046,623
Balance at 1 April 2019 (as previously reported)	1,025	469,895	-	37,993	(1,704)	1,557,525	2,064,734
Correction of prior period error* (note 39)	-	-		-	-	(18,111)	(18,111)
Effect of change in accounting policies for: IFRS 16** (note 2)	-	-		-	-	5,024	5,024
Balance at 1 April 2019 (restated*)	1,025	469,895	-	37,993	(1,704)	1,544,438	2,051,647
Profit for the year	-	-	-	-	-	110,591	110,591
Other comprehensive income for the year:							
Investment revaluation	-	-	-	-	2,487	-	2,487
Deferred tax on investment revaluation	-	-	-	-	(108)	-	(108)
Total comprehensive income for the year	-	-	-	-	2,379	110,591	112,970
Share based compensation expense	-	-	7,411	-	-	-	7,411
At 31 March 2020	1,025	469,895	7,411	37,993	675	1,655,029	2,172,028

* The comparatives were restated as a result of a prior period error. See note 39 for details regarding the restatement.

** The Group has applied IFRS 16 'Leases' with effect from 1 April 2019 using the modified retrospective approach. Comparatives have not been restated and as a result are not entirely comparable. Note 2 provides more detailed information on the impact of adoption.

40 Profit for the year

As permitted by s408 of the Companies Act 2006, no separate income statement or statement of comprehensive income is presented in respect of the parent Company. The profit/loss attributable to the Company is disclosed in a footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.
The average monthly number of employees (including executive directors) was:

	2020 No.	2019 No.
Research and development	1,560	1,493
Sales and marketing	683	592
General and administrative	229	201
Total	2,472	2,286

Their aggregate remuneration comprised:

	2020 £ 000	2019 £ 000
Wages and salaries	252,596	238,670
Social security costs	30,260	22,059
Other pension costs	13,235	12,181
	296,091	272,910
Share based payments:-		
Equity settled	2,859	-
Cash settled	513	1,531
	3,372	1,531
Total	299,463	274,441

Of the total pension costs above, £2.5 million remained unpaid at 31 March 2020 (2019: £1.9 million).

Arm Limited

Notes to the Company Financial Statements (continued)
For the Year Ended 31 March 2020

41 Intangible assets

	Goodwill £ 000	Patents & licences £ 000	Acquired intangibles £ 000	Computer software £ 000	Intangible assets under construction £ 000	Total £ 000
Cost						
At 1 April 2019	46,823	137,480	63,788	46,403	23,573	318,067
Transition to IFRS 16*	-	-	-	70,077	-	70,077
At 1 April 2019	46,823	137,480	63,788	116,480	23,573	388,144
Additions	-	-	-	34,518	15,549	50,067
Disposals	(668)	-	-	(4,998)	(4,182)	(9,848)
Transfers	-	-	-	15,827	(18,084)	(2,257)
At 31 March 2020	46,155	137,480	63,788	161,827	16,856	426,106
Amortisation and impairment						
At 1 April 2019	-	84,554	44,243	27,501	-	156,298
Charge for the year	-	15,674	6,737	46,495	-	68,906
Disposals	-	-	-	(1,357)	-	(1,357)
At 31 March 2020	-	100,228	50,980	72,639	-	223,847
Carrying amount						
At 31 March 2020	46,155	37,252	12,808	89,188	16,856	202,259
At 31 March 2019	46,823	52,926	19,545	18,902	23,573	161,769

* The adjustment in respect of the transition to IFRS 16 relates to assets derecognised on initial application of IFRS 16 and rerecognised as right-of-use assets. See note 2 for further details

During the year, the Company transferred Assets under construction classified as Intangible assets with a net book value of £2.3m to property, plant and equipment to better reflect the nature of the underlying assets. In addition, the construction of certain IT data centres were completed and were transferred out of assets-under-construction and classified within Machinery and equipment, Fixtures and Fittings and Leasehold improvements.

42 Property, plant and equipment

	Freehold buildings £ 000	Leasehold improve-ments £ 000	Computer equipment £ 000	Fixtures, fittings and motor vehicles £ 000	Assets under construction £ 000	Total £ 000
Cost						
At 31 March 2019	190	14,780	76,415	6,519	33,001	130,905
Transition to IFRS 16*	-	-	(5,451)	-	-	(5,451)
At 1 April 2019	190	14,780	70,964	6,519	33,001	125,454
Additions	-	21,305	19,494	5,117	2,200	48,116
Transfers	-	29,022	-	1,780	(28,545)	2,257
Disposals	(190)	(499)	(3,000)	(647)	(3,257)	(7,593)
At 31 March 2020	-	64,608	87,458	12,769	3,399	168,234
Depreciation						
At 31 March 2019	154	8,840	48,181	3,518	-	60,693
Transition to IFRS 16*	-	-	(5,255)	-	-	(5,255)
At 1 April 2019	154	8,840	42,926	3,518	-	55,438
Charge for the year	7	3,937	16,683	1,497	-	22,124
Disposals	(161)	(270)	(2,855)	(303)	-	(3,589)
At 31 March 2020	-	12,507	56,754	4,712	-	73,973
Carrying amount						
At 31 March 2020	-	52,101	30,704	8,057	3,399	94,261
At 31 March 2019	36	5,940	28,234	3,001	33,001	70,212

* The adjustment in respect of the transition to IFRS 16 relates to assets recognised on initial application of IFRS 16. See note 2 for further details.

During the year, the Company transferred asset under construction classified as Intangible assets with a net book value of £2.3m to property, plant and equipment to better reflect the nature of the underlying assets. In addition, the construction of certain IT data centres were completed and were transferred out of assets under construction and classified within machinery and equipment, fixtures and fittings and leasehold improvements.

At 31 March 2019, included within computer equipment are assets held under finance leases (as reported under IAS 17) with carrying value of £0.2 million.

43 Leases

The Company leases various offices and IT equipment. Rental contracts are typically made for a fixed period of 2 to 20 years, but may have extension options as described below.

Until the March 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payment (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payment of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonable certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of small items of office equipment.

Extension and termination options are included in a number of property leases. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company.

43 Leases (continued)

(a) Right-of-use assets

The carrying amount of the Company's right-of-use assets are set out below:

	Property £ 000	IT equipment £ 000	Total £ 000
Cost			
At 31 March 2019	-	-	-
Transition to IFRS 16*	71,175	5,587	76,762
At 1 April 2019	71,175	5,587	76,762
Additions	117,425	-	117,425
Disposals	(18,318)	-	(18,318)
At 31 March 2020	170,282	5,587	175,869
Depreciation and impairment			
At 31 March 2019	-	-	-
Transition to IFRS 16*	41,412	3,299	44,711
At 1 April 2020	41,412	3,299	44,711
Charge for the year	10,826	1,257	12,083
Disposals	(18,186)	-	(18,186)
At 31 March 2020	34,052	4,556	38,608
Carrying amount			
At 31 March 2020	136,230	1,031	137,261
At 31 March 2019	-	-	-

Lease liabilities

The carrying amount of lease liabilities at 31 March 2020 are set out below:

	Property £ 000	IT equipment £ 000	Total £ 000
Current lease liabilities	8,051	1,099	9,150
Non-current lease liabilities	128,028	-	128,028
Total lease liabilities	136,079	1,099	137,178

43 Leases (continued)

(b) Lease liabilities (continued)

The maturity of the gross contractual undiscounted cash flows due on the Company's lease liabilities is set out below based on the period between 31 March 2020 and the contractual maturity date.

	Within 1 year £ 000	Between 1 and 5 years £ 000	Over 5 years £ 000	Total £ 000
Property	8,051	35,001	93,027	136,079
IT equipment	1,099	-	-	1,099
	9,150	35,001	93,027	137,178

(c) Impact on the Income Statement

	2020 £ 000	2019 £ 000
Depreciation charge of right-of-use assets		
Property	10,826	-
IT equipment	1,257	-
	12,083	-
Interest expense	2,127	-
Expense relating to short-term and low-value leases	2,055	-

(d) Comparative information in respect of leases reported under IAS 17

The Company leases various offices and IT equipment under non-cancellable finance and operating leases expiring within two months to twenty years. The leases have varying terms and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 April 2019, the Company has recognised right-of-use assets for these leases, except for short-term and low-value leases, see above for further information.

(i) Obligations under finance leases

	Minimum lease payments 2019 £ 000
Amounts payable under finance leases:	
Within one year	61
In the second to fifth years inclusive	-
	61
Less: future finance charges	(1)
Present value of lease obligations	60

43 Leases (continued)

Comparative information in respect of leases reported under IAS 17 (continued)

	Present value of minimum lease payments 2019 £ 000
Amounts payable under finance leases:	
Within one year	60
In the second to fifth years inclusive	-
Present value of lease obligations	60
Analysed as:	
Amounts due for settlement within 12 months (shown under current liabilities)	60
Amounts due for settlement after 12 months	-
	60

Obligations under finance leases are secured on the related assets.

Finances leases related to three and four-year finance lease arrangements in respect of certain IT equipment.

(ii) Operating lease arrangements

The Company as lessee:

	2020 £ 000	2019 £ 000
Lease payments under operating leases recognised as an expense in the year	-	48,434

As at 31 March 2019, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fell due as follows:

	2019 £ 000
Within one year	10,758
In the second to fifth years inclusive	15,599
After five years	837
	27,194

Lease payments in respect of operating leases for the year to 31 March 2019 amounted to £48.4 million.

44 Investments in subsidiaries

	£ 000
Cost	
At 1 April 2019	921,174
Additions	15,511
Share-based payments transaction (note 32)	1,564
At 31 March 2020	938,249
Provision for impairment	
At 1 April 2019 and at 31 March 2020	299,525
Net book value	
At 31 March 2020	638,724
At 31 March 2019	621,649

During the year ended 31 March 2020 Arm Limited provided a subsidiary company, Arm Holdings US, Inc., with a capital contribution of £6.1 million (31 March 2019: £287.0 million).

The share-based payments transaction relate to the RSU employee share scheme which grants RSU's to employees of the Company's subsidiary over the Company's shares for services rendered in the subsidiary (see note 32). The share-based payment transaction represents the capital contribution in the subsidiary as those services are rendered to the subsidiary.

Details of the Company's subsidiaries at 31 March 2020 are shown below. All investments are a directly held, 100% onwership of a single class of ordinary shares unless otherwise shown.

Name	Address of the registered office	Principal activity	Proportion of shares held
Advanced RISC Machines Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Allinea Software GmbH *	c/o Grant Thornton GmbH, Ganghoferstrasse 31, 80339, Munchen, Germany	Software development	100%
Allinea Software Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Allinea Software, Inc. *	2033 Gateway Place, Suite 500, San Jose, CA 95110-3712, US	Software sales	100%
Apical Imaging Limited *	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Apical Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Engineering and sales support	100%
Apical, Inc *	Suite 745W, 2001 Gateway Place, San Jose CA 95110, US	Dormant	100%
Arm Asia Investment G.P. Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment-holding	100%

44 Investments in subsidiaries (continued)

Name	Address of the registered office	Principal activity	Proportion of shares held
Arm Belgium Services BVBA	Mechelsesteenweg 277, 1800 Vilvoorde, Belgium	Administration	100%
Arm Denmark Aps *	Ragnagade 7, 2100 Copenhagen Denmark	Development of IoT technology	100%
Arm Embedded Technologies Private Limited	Bagmane WTC-SEZ, Citrine Block, 4th Floor, Marathahalli Outer Ring Road, Mahadevapura, Bangalore, 560048, India	Marketing, research and development of RISC-based microprocessors and physical IP	100%
Arm Finland Oy	Torikatu 18, 90100 Oulu, Finland	Development of IoT technology	100%
Arm France SAS	25 Allee Pierre Ziller, 06560, Valbonne, France	Marketing, research and development of RISC-based microprocessors and physical IP	100%
Arm Finance Overseas Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment company	100%
Arm Germany GmbH	Bretonischer Ring 16, D-85630 Grasbrunn, Germany	Marketing of RISC-based microprocessor IP. Marketing, and research and development of microcontroller tools	100%
Arm Germany d.o.o. *	Obrtna Cesta 18, SL-8310, Sentjernej, Slovenia	Marketing of RISC-based microprocessor IP. Marketing, and research and development of microcontroller tools	100%
Arm Holdings Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Arm Holdings US, Inc.	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Holding company	100%
Arm Hungary KFT	H-1082 Budapest, Futo u.45, Hungary	Development of system IP	100%
Arm IP Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment Company	100%

44 Investments in subsidiaries (continued)

Name	Address of the registered office	Principal activity	Proportion of shares held
Arm, Inc. *	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Marketing, research and development of RISC-based microprocessors and physical IP	100%
Arm Ireland Limited	2nd Floor Lyrr Building, Mervue Industrial Estate, Galway, Ireland	Development of system IP	100%
Arm KK	Shinyokohama Square Bldg. 17F, 2-3-12 Shin-Yokohama, Kohoku-Ku, Yokohama-Shi, Kanagawa 222-0033, Japan	Marketing of RISC-based microprocessor IP	100%
Arm Korea Limited	7th Floor Kyungdong Building, 4-4 Sunae-dong, Bundang-gu, Seongnam-si, Gyeonggi-do 463-020, South Korea	Marketing of RISC-based microprocessor IP	100%
Arm Norway AS	Olav Tryggvassons gt. 39-41, 7011 Trondheim, Norway	Research and development of graphics IP	100%
Arm PIPD Holdings One, LLC *	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Holding company	100%
Arm PIPD Holdings Two, LLC *	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Holding company	100%
Arm Sweden AB	Emdalavägen 6, SE-223 69 Lund, Sweden	Research and development of graphics IP	100%
Arm Sansa Holdings, Inc. *	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE19801, US	Dormant	100%
Arm Taiwan Limited **	8F, No. 36, Ruihu Street, Nei-Hu District, Taipei City 11494, Taiwan (R.O.C)	Marketing, research and development of RISC-based microprocessors and physical IP	100%
Arm Technologies Israel Limited *	Grand Netter Industrial Zone, BeitIntergma Ha Alon St, Kfar ,Netter 40593, Israel	Development of IoT technology and system IP	100%
Arm Technology Investments Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investments	100%

44 Investments in subsidiaries (continued)

Name	Address of the registered office	Principal activity	Proportion of shares held
Arm UK Holdings Limited *	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Holding company	100%
ChaoLogix, Inc. *	One Independent Drive, Suite 3120, Jacksonville, FL 32202, US	Dormant	100%
ChaoLogix Technologies India Private Limited *	7th Floor, Southin Wing, Krishe Sapphire, Hitech City Main Road, Madhapure, Hyderabad 500081, Telangana, India	Development of IoT technology	100%
ChaoLogix USA, LLC *	One Independent Drive, Suite 3120, Jacksonville, FL 32202, US	Dormant	100%
Geomerics Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
IOT-X Limited *	C/O Brodies LLP, 110 Queen Street Glasgow, G1 3BX	Dormant	100%
Keil Software, Inc. *	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Dormant	100%
Mistbase AB *	Trollebergsvagen 79, 22731 Lund, Sweden	Dormant	100%
NextG-Com India Private Limited *	No. 249, Reliable Lifestyle Layout, Harlur Road, Sarjapura Road, Bangalore, Karnataka, 560102, India	Dormant	100%
NextG-Com Innovation Private Limited *	No. 249, Reliable Lifestyle Layout, Harlur Road, Sarjapura Road, Bangalore, Karnataka, 560102, India	Dormant	100%
NextG-Com Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Simulity Enterprise Limited *	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Simulity Labs India Private Limited *	A-4/281 Sector-4, Rohini Delhi North West DL 11085, India	Dormant	100%
Simulity Labs Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Simulity South Africa Proprietary Limited *	Liesbeek House, Ground Floor, Gloucester Road River Park, Mowbray, Cape Town, 7700, South Africa	Development of IoT technology	100%

44 Investments in subsidiaries (continued)

Name	Address of the registered office	Principal activity	Proportion of shares held
Arm Cloud Services Limited (Previously Stream Technologies Limited)	110 Queen Street, Glasgow G1 3BX, UK	Development of IoT technology	100%
Stream Communication GmbH *	Triebstrasse 14, 80993 Munich, Germany	Dormant	100%
Stream Technologies LLC *	301 W Atlantic Ave, Suite 0-8, Delray Beach, FL 33444, US	Dormant	100%
Sunrise Micro Devices, Inc. *	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Dormant	100%
Treasure Data, Inc. *	2565 Leghorn St., Mountain View, CA 94043, US	Development of IoT technology	100%
Treasure Data KK *	Marunouchi Kitaguchi Building 6F 1-6-5 Marunouchi, Chiyoda-ku, Tokyo, Japan	Development of IoT technology	100%
WigWag, Inc. *	4009 Bannister Lane, Suite 200 Austin, TX 78704, US	Development of IoT technology	100%
WigWag Networks India Private Limited *	18, First Floor, New Market Jeoni Mandi, Aqra - 282004 UP, India	Development of IoT technology	100%
Arm Technology Investments 2 Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment holding company	100%
Arm Cloud Services Inc.	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Sales and marketing of ISG services	100%
Arm Cloud Technologies Inc.	150 Rose Orchard Way, San Jose, CA 95134-1358, US	Development of ISG services and products	100%
Arm Holdings Candada, Inc.	C/O WeWork, 555 Burrard, 2nd Floor Vancouver, BC, V7X 1M8	Development of ISG services and products	100%
Rack Services (Shanghai) Commercial & Trading Co., Ltd	10-11 F, Two IFC, 8 Century Avenue China (Shanghai) Pilot Free Trade Zone Shanghai, 200120, China	Provision of IT Equipment to China JV	100%

* Investment owned indirectly by the Company.

** The Company owns 99.99% of the share capital of Arm Taiwan Limited, with an external party owning the remaining 0.01% of share capital, in accordance with legal regulations in Taiwan.

44 Investments in subsidiaries (continued)

During the year the Group set up and incorporated four new subsidiaries; Arm Technology Investments 2 Limited, a company incorporated in the UK; Arm Cloud Services Inc, a company incorporated in the US; Arm Cloud Technologies Inc, a company incorporated in the US; and Arm Holdings Canada Inc, a company incorporated in Canada.

45 Associates and joint ventures

	£ 000
Cost	
At 1 April 2019	30,797
Investment	5,365
Impairment	-
At 31 March 2020	36,162

Arduino SA

During the year, the Company's interest in Arduino SA increased from 10.4% to 15.7% following a funding round in March 2020 whereby the company invested a further £5.365m into the company which was financed partly by cash and partly by the conversion of the balance on the loan receivable with the company.

Details of the Company's associates and joint ventures at 31 March 2020 are as follows:

Name	Place of business and registered office address	Principal activity	Holding	Proportion of ownership interest %	Proportion of voting power held %
Arduino SA (formerly known as BCMI Industries SA)	Corso San Gottardo 6A, 6830 Chiasso, Switzerland	Computer programming activities	None *	15.7	15.7
Arm Technology (China) Co. Limited	Qianhai Complex A201, Building A, No. 1 Qianwan 1st Road, Qianhai Shengang Cooperation Zone, Shenzhen, PR China	Licensing and R&D of microprocessors and related IP	Ordinary shares	47.3	47.3
Linaro Limited	Harston Mill, Harston, Cambridge, CB22 7GG	Software engineering collaboration for Arm Ecosystem	None **	33.3	33.3

* The Company is considered to have significant influence over Arduino SA due to a material loan receivable and by influence over the entity's board of directors.

** The Company is one of three Core Members of Linaro Limited; the Core Members jointly control the company.

In the prior year, the Company recorded an impairment charge of £18.8 million relating to the Company's investment in Trustonic, reducing the carrying amount of this investment to £nil. The Company has since sold its investment in Trustonic and recorded a gain on disposal of £45k.

46 Other investments

	2020 £ 000	2019 £ 000
Investments in equity instruments designated as FVTOCI		
Unlisted shares	10,256	7,844
Listed shares	358	-
	10,614	7,844
Loans receivable carried at amortised cost		
Loans to associates and joint ventures	17,971	18,668
Loans to other entities	2,500	3,255
	20,471	21,923
Total investments	31,085	29,767

Unlisted shares represent either direct or indirect, through a capital fund, investments in unlisted early-stage development enterprises which are generating value for shareholders through research and development activities, and most do not currently report profits.

Listed shares represent a direct investment in Cypress Semiconductor Corp, a semiconductor design and manufacturing company based in California, USA.

The fair value of these investments varies with the type of investment held. Direct investments are measured approximate to cost, except where external factors provide better evidence for valuation. Indirect investments are valued as a proportion of the fund's net asset value (NAV). All investments held by the Company are considered to be long-term to enable ecosystem growth, and are non-current assets. The Company has designated all investments in shares to be measured at FVTOCI.

47 Inventories

	2020 £ 000	2019 £ 000
Finished goods and goods for resale	1,466	2,568

48 Contract assets

	2020 £ 000	2019 Restated £ 000
Contract assets	62,159	67,062
Current	56,877	61,708
Non-current	5,282	5,354
	62,159	67,062

Contract assets for the comparative year have been restated as a result of a prior period error. See note 39 for details regarding the restatement.

48 Contract assets (continued)

A reconciliation in the movement in contract assets is set out below:

	£ 000
Balance at 1 April 2019	67,062
Performance obligations satisfied during the period	105,491
Other adjustments	(9,753)
Transfers in the period from contract assets to trade receivables	(101,801)
Foreign exchange variances	1,160
Balance at 31 March 2020	62,159

49 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	491,744	355,785
Loss allowance	(1,894)	(1,894)
Net trade receivables	489,850	353,891
Prepayments	26,752	34,212
Accrued income	207,429	168,265
Amounts due from Group undertakings	175,983	72,976
Other receivables	45,975	28,130
Current trade and other receivables	945,989	657,474
Other receivables	54,852	-
Non-current trade and other receivables	54,852	-
Total trade and other receivables	1,000,841	657,474

50 Deferred tax

The movement of the deferred tax account is shown below:

	2020 £ 000	2019 £ 000
At 1 April	(156,695)	-
Income statement credit/(charge)	7,982	(153,075)
Amount acquired with subsidiary undertakings	-	(4,919)
Reclassification from current tax	3,777	1,616
Charge to other comprehensive income	(108)	(317)
At 31 March	(145,044)	(156,695)

Deferred tax assets have been partially recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is not probable that the unrecognised portion of these assets will be recovered.

50 Deferred tax (continued)

The amount of deferred tax assets unrecognised at 31 March 2020 was £nil (2019: £nil).

No deferred tax has been recognised in respect of a further £88.2 million (2019: £75.2 million) of unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of these differences and either it is possible that such differences will not reverse in the foreseeable future or no tax is payable on the reversal.

The movements in deferred tax assets and liabilities is shown below:

Deferred tax assets

	Temporary differences relating to fixed assets £ 000	Temporary differences relating to liabilities £ 000	Total £ 000
At 1 April 2018	(92)	92	-
Income statement credit	4,292	2,118	6,410
Movement from current tax assets	-	1,614	1,614
At 31 March 2019	4,200	3,824	8,024
At 1 April 2019	4,200	3,824	8,024
Income statement credit	2,139	2,276	4,415
Movement from current tax assets	-	3,775	3,775
At 31 March 2020	6,339	9,875	16,214

Deferred tax liabilities

	Amounts relating to intangible assets arising on acquisition £ 000	Temporary differences relating to assets £ 000	Total £ 000
At 1 April 2018	-	-	-
Amount acquired with subsidiary undertakings	4,919	-	4,919
Charge to other comprehensive income	-	317	317
Income statement (credit)/charge	(1,961)	161,445	159,484
At 31 March 2019	2,958	161,762	164,720
At 1 April 2019	2,958	161,762	164,720
Charge to other comprehensive income	-	108	108
Income statement (credit)/charge	(754)	(2,816)	(3,570)
At 31 March 2020	2,204	159,054	161,258

51 Trade and other payables

	2020 £ 000	2019 £ 000
Trade payables	41,981	26,243
Accruals	162,810	129,677
Amounts owed to Group undertakings	149,796	191,439
Other taxation and social security	6,560	5,448
Other payables	35,388	8,917
	396,535	361,724

52 Contract liabilities

	2020 £ 000	2019 Restated £ 000
Amounts related to contracts	146,542	102,207
Current	65,961	44,653
Non-current	80,581	57,554
	146,542	102,207

A reconciliation in the movement in contract liabilities is set out below:

	2020 £ 000
Balance at 1 April 2019	102,207
Cash received in advance of performance	(239,324)
Other adjustments	87,775
Amounts included in contract liabilities that was recognised as revenue during the period:	
of which included in the opening balance	49,490
of which not included in the opening balance	144,538
Foreign exchange variances	1,856
Balance at 31 March 2020	146,542

Contract liabilities for the comparative year have been restated as a result of a prior period error. See note 39 for details regarding the restatement.

53 Provisions

	2020 £ 000	2019 £ 000
Dilapidations provision	9,562	2,992
Legal provision	6,613	-
Onerous leases provision	-	183
	16,175	3,175

	Dilapidations provision £ 000	Legal provision £ 000	Onerous leases provision £ 000	Total £ 000
At 1 April 2019	2,992	-	183	3,175
Transition to IFRS 16	674	-	(183)	491
Additional provision in the year	6,099	6,613	-	12,712
Reversal of provisions	(336)	-	-	(336)
Utilisation of provision	(23)	-	-	(23)
Unwinding of discount	156	-	-	156
At 31 March 2020	9,562	6,613	-	16,175

The dilapidations provision relates to costs to be incurred in returning leased assets to their original state at the end of the lease.

The legal provision relates to anticipated cash settlement regarding the construction of leasehold improvements.

The onerous leases provision in the prior year had arisen where the future economic benefit expected to be derived from use of certain leasehold properties was less than the non-cancellable future lease commitments.

54 Capital and reserves

Share capital, share premium account, investment revaluation reserve and retained earnings
See note 27 to the Group accounts for descriptions on the nature and purpose of share capital, share premium account and retained earnings.

Other reserves
Other reserves relates to the unrealised profit arising in 2005 on the Company's sale of its investment in Arm Inc.

55 Prior period error

During the year, the Company identified that performance obligations in respect of certain subscription revenue arrangements had been considered and treated in the prior year financial statements as fully satisfied. Upon further investigation, the Company identified that certain promises within these arrangements had not yet been delivered, and should have been deferred.

In addition, the Company identified certain promises that had been considered and treated in the prior year financial statements as not satisfied. However, further investigation revealed that a number of these contracts were considered closed with the associated IP being delivered to the relevant customers. Consequently, the Company should have recognised the transaction price attached to those performance obligations. This adjustment did not have an impact on taxation in the current comparative year.

In addition to the subscription revenue adjustment, the Company identified that the maturity of contract assets and liabilities did not reflect the Group's business model. Consequently, certain contract assets and liabilities have been reclassified as non-current balances to reflect an appropriate maturity of these balances. This reclassification did not impact equity or the statement of comprehensive income in either the current or comparative year.

The impact on the balance sheet as at 31 March 2019 is set out below:

Extract of the Balance Sheet as at 31 March 2019	**31 March 2019 As previously reported £ 000**	**Adjustment £ 000**	**31 March 2019 As Restated £ 000**
Contract assets	6,521	(1,167)	5,354
Total Non-current assets	928,739	(1,167)	927,572
Contract assets	83,108	(21,400)	61,708
Total Current assets	1,773,868	(21,400)	1,752,468
Total Assets	2,702,607	(22,567)	2,680,040
Contract liabilities	62,816	(18,163)	44,653
Total Current liabilities	427,775	(18,163)	409,612
Contract liabilities	43,847	13,707	57,554
Total Non-current liabilities	210,098	13,707	223,805
Total liabilities	637,873	(4,456)	633,417
Net assets	2,064,734	(18,111)	2,046,623
Retained earnings	1,557,525	(18,111)	1,539,414
Total equity	2,064,734	(18,111)	2,046,623

There was no impact on the profit or loss or total comprehensive income for the year to 31 March 2019.