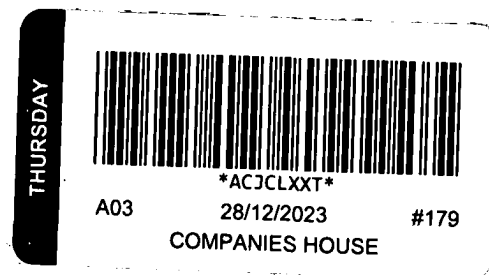


(Registered Number: 02557590)

Arm Limited
Annual Report and Consolidated Financial Statements
For the year ended 31 March 2023



Arm Limited

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Arm Limited

Strategic Report

The directors present their strategic report for the Arm Limited Group ('the Group', 'Arm') for the year ended 31 March 2023. 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 CPU design intellectual property (IP), graphics processors, system IP, physical IP, market optimized platform IP, and associated software and tools.

The Group's revenues from continuing operations for the year ended 31 March 2023 were \$2,679.2 million (2022: \$2,703.5 million) comprising income from licensing our technology designs, royalty fees on chips containing our designs, and the sale of development tools and services. The increase in revenue is primarily due to an increase in royalty revenue driven by chips used in premium smartphones delivering more revenue per chip and the continuing ramp-up of Arm-based chips in cloud data centers and in automotive applications, partially offset by a decrease in license revenue following record revenues in the prior year. Whilst revenue from licensing has decreased year-on-year, Arm continues to see strong demand for its products, and has introduced new business models to enable customers to access a portfolio of products more easily:

Total operating costs from continuing operations for the year ended 31 March 2023 were \$2,015.9 million (2022: \$1,808.2 million). The following are key impacts for the year ended 31 March 2023 that, in combination, have resulted in a net increase in operating costs, in order of impact, highest first:

- The net cost increase from changes to employee remuneration including an increase to share based compensation;
- Cost increase from higher bonus payments following successfully achieving financial and operational targets;
- Offsetting cost decrease by effective cost management, especially of overhead costs and the impacts of the one-off restructuring event when the business reviewed allocation of resources and future investment.

Profit before tax from continuing operations for the year ended 31 March 2023 was \$591.4 million (2022: \$805.1 million). Loss for the year from discontinued operations for the year ended 31 March 2023 was \$nil (2022: \$125.3 million) (note 12).

At 31 March 2023, the Group had total cash, short-term deposits and long-term deposits of \$2,216.7 million (2022: \$1,636.8 million) and total net assets of \$4,159.4 million (2022: \$3,584.1 million). The increase in total cash and deposits is primarily driven by cash generated from operating activities in the year.

Arm Limited

Strategic Report (continued)

Future developments

The Group's stated objective is to establish a global standard for its technology in the semiconductor industry. The directors believe that to achieve this goal it is important to expand the number and range of potential customers for its CPU and related products. The Group intends to enter into licence agreements with new customers and to increase the range of new products 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.

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 products to semiconductor companies, original equipment manufacturers and technology companies. Licence arrangements are typically multi-year and include obligations for the customer to pay Arm a royalty for every chip that contains Arm's products. During the year ended 31 March 2023, the Group saw strong demand for its technology. This demand was primarily due to new products introduced by Arm over the recent year, a new business model enabling more customers to access Arm technology, and new customers licensing Arm technology for the first time. We consider the number of extant Arm Total Access and Arm Flexible Access licenses as a key performance indicator as it represents the increasing collaboration between us and our customers, which could be a leading indicator to more chips being designed with our products and, accordingly, more recurring royalty revenue in the future, improving our long-term market share. As at 31 March 2023 the number of extant Arm Total Access licences were 18 (2022: 8) and extant Arm Flexible Access licences were 203 (2022: 131).

Increasing sales of Arm-based chips and gaining market share: During the year ended 31 March 2023, the Group's customers reported around 30.6 billion chips shipped (2022: 29.2 billion). This year-on-year increase was driven by, among other things, the growth in electronics being designed in new cars, Arm gaining share in the cloud data centre market, and more chips being deployed to enable industrial automation. In addition, with demand for computer chips in some segments exceeding supply, the industry has witnessed an increase in the average selling price of some chips. As some of Arm's royalty revenue is on a percentage of the selling price of a chip, increasing chip prices can result in increased royalty revenue to Arm.

Investing in the Group's people and systems: Our people design and deliver our products to our customers, and support the ecosystem of companies 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 2023, the Group had an average of 5,901 employees (2022: 6,428). The reduction in employees from the prior year was largely driven by restructuring.

Impact of COVID-19 on the industry and Arm's business performance

During 2022, the world continued to be impacted by COVID-19 and its emergent variants, and although many areas introduced temporary local lockdowns this did not have a major impact on the semiconductor industry or on the Group.

Arm and many of its customers have now successfully transitioned to hybrid working, with employees spending part of the week working from home and the remaining time in the office. At the time of writing, travel by the Group's employees is still below pre-pandemic levels. Although we do expect travel activity and attendance at marketing events to gradually increase, resulting in an increase in Arm's operating expenses, Arm intends to keep employee travel at a much lower level than in 2019, managing both our costs and carbon footprint.

Arm Limited

Strategic Report (continued)

Impact of the conflict between Russia and Ukraine on the industry and Arm's business performance

The ongoing conflict between Russia and Ukraine has had little direct impact on the business performance of the Group in the year ended 31 March 2023. The indirect effect to the semiconductor industry could be more impactful through the disruption of global supply chains, increased cost of energy and raw materials, and the potential impact to consumer confidence around the world. Arm monitors the long-term demand for its products and will adjust its strategy accordingly.

Principal risks and uncertainties

The Group's robust risk management and internal control processes are in place to identify 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 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 price 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.

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.

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 2023, Arm derived approximately 57% of total net revenue from our top five customers (including Arm China) (2022: 56%). We expect customer concentration of revenue to continue for the foreseeable future.

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

Arm Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

The Group could become a victim of a cyber-attack or an online 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 in turn 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.

Arm has invested significantly in its cyber security capability across prevention, detection and response capability in recent years to ensure Arm has appropriate cyber resilience. This commitment remains as we continuously review the threat and risk environment and make decisions and investments to minimise the risk of a cyber-attack materialising. This includes, but is not limited to, ensuring we have a security aware colleague population, reviewing and improving our security controls both from a governance and technology perspective as well as partnering with industry leading partners for expert skills and capabilities. In addition, Arm has 24/7 detect and response capability should a cyber-attack materialise to ensure we're able to rapidly respond and minimise impact and disruption to the organisation. Furthermore, we simulate and stress-test major cyber incidents to contribute towards our cyber readiness capability, the learnings of which are implemented as part of a continuous improvement programme.

The Group may have to assert IP rights against infringers or defend itself against third parties who claim that Arm has infringed their proprietary rights

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. The Group further may have to defend its products in litigations brought by third parties who claim that such products infringe third-party IP rights.

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.

Arm Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

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 the 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, IP rights and liability issues; and
- inadequate levels of compliance with applicable anti-bribery laws, including the Foreign Corrupt Practices Act and the UK Bribery Act of 2010.

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 program to ensure adherence to various trade laws.

Arm Limited

Strategic Report (continued)

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 ('Act'), having had regard to factors (a) to (f) under Section 172(1) of the Act in their decision-making during the year ended 31 March 2023, as well as the proposed plans for the future.

The board has continued to monitor and assess the effectiveness of stakeholder engagement activities, as described in this Section 172(1) statement and in the section entitled "Principle 6 - Stakeholders" of the Corporate Governance Report, which includes a discussion of the impact of stakeholder engagement on key decisions taken and any related outcomes.

The board regularly receives reports from internal committees and at board meetings addressing the topic of stakeholder engagement in the form of corporate governance briefings provided by the Chief Executive Officer ("CEO"), as detailed at the opening of the Corporate Governance Report. This consistent consideration of stakeholders in the context of current developments and board decisions facilitates the directors' performance of their duties.

Further details of the responsibilities held by the directors of the Company and their risk management through Committee involvement are provided in "*Principle 3 - Directors' Responsibilities*" of the Corporate Governance Report.

Arm Limited

Strategic Report (continued)

Section 172(1) Factor	Board decisions / activities
(a) The likely consequences of any decision in the long term and	The board develops and agrees an annual budget as well as the Company's strategic long-term goals, with the year ended 31 March 2023 annual budget approved on 22 March 2022. Due consideration is given to long-term effects and external factors such as competition, technological developments, and economic, geopolitical, market and political conditions as well as environmental factors. In the year ended 31 March 2023, the Company's board reserved matters were reviewed in connection with the Company's ongoing uplift of its corporate governance practices and policies. Updates are to be implemented in the year ended 31 March 2024 to facilitate reporting and escalation of matters to the board as necessary. Further detail on this update is included in "Principle 3 - Directors' Responsibilities" of the Corporate Governance Report.
(e) The desirability of the Company maintaining a reputation for high standards of business conduct	Press releases have announced that the Company is contemplating a public listing. However the timeframe, terms and certainty of a public listing cannot be assured at this time. During the year ended 31 March 2023, the board was periodically briefed on the ongoing preparations for a potential public listing, during which the impact on the Company, the workforce and its stakeholders were reviewed and considered. The board will continue to evaluate governance changes that may be required in the context of the Company, the interests of its stakeholders and its strategy. Review by the Company of its business plan led the Company to manage redundancies across its global workforce during the year ended 31 March 2023. Please also see this decision referenced in Section 172(1)(b) and in "Principle 6 - Stakeholders" of the Corporate Governance Report below. During the year ended 31 March 2023, the board considered the long-term consequences of the COVID-19 pandemic and the impact it continues to have on the Company's stakeholders and working practices. Remote engagement under hybrid working guidance remains the normal way of working for customer and colleague interactions, with this way of working proving highly effective. However, in the face of relaxing COVID-19 restrictions during the course of the year ended 31 March 2023, the board has also sought to re-introduce face-to-face engagement opportunities, in the light of preferences by certain stakeholders. This has taken the form of increasing travel in certain regions, as well as a gradual increase in the provision of in-person training courses and design reviews according to customer preference. The board engaged with those of the Company's customers who are in favour of in-person engagement by holding a face-to-face Arm Partner Meeting event in August 2022 in the UK. This marked the first such event for the Company since the outbreak of the COVID-19 pandemic. The board expects to see a continuation of this trend in favour of face-to-face engagement, although not immediately reaching pre-pandemic levels; the board will continue to monitor the situation as expectations and norms evolve in the Company and across its partner base. In order to continue to maintain high standards of business conduct through the leadership and oversight of the board, the Company maintains various compliance policies, including the Code of Conduct, the Supplier Code of Conduct, the Anti-Bribery & Corruption Policy and the Whistleblowing Policy. These policies are maintained and reviewed by the Compliance Committee and any changes or updates to them are reported up to the board for consideration following or prior to such changes or updates being made. Copies of the Company's codes of conduct, among other related Company and Group reports, are available at: https://www.arm.com/company/sustainability/read-our-reports. In FY22 the Company continued to be listed as one of the World's Most Ethical Companies by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices. The World's Most Ethical Companies Award measures and compares companies in many categories including: - o Ethics and Compliance Programme; - o Ethical Culture; - o Environmental and Social Impact; - o Corporate Governance; and - o Leadership.

Arm Limited

Strategic Report (continued)

Section 172(1) Factor Board decisions / activities

(b) The interests of the Company's employees The board recognises the importance of the Company's workforce and seeks out employee perspectives and takes efforts to engage employees with the Company strategy and Core Beliefs. Employees are actively encouraged to provide feedback, report concerns and raise questions through multiple channels, as further described and detailed in the section entitled "Principle 6 - Stakeholders" of the Corporate Governance Report.

As mentioned in relation to Section 172(1)(a) and (f) above and in "Principle 6 - Stakeholders" of the Corporate Governance Report below, following review of the Company's business plan, the board found it necessary as a result of this analysis to initiate a reduction in workforce during the year ended 31 March 2023.

The Company's leadership team have a strong focus on encouraging and facilitating a feedback culture, in order to engage and connect employees with the Company. During the year ended 31 March 2023, Life at Arm pulse survey was completed in July/August 2022 by 72% of the workforce and showed a positive increase in many areas from the last pulse survey in December 2021. Of those who responded, 91% were proud to work for Arm. Additionally, 92% felt that their colleagues create an inclusive environment, marking an increase from the previous two surveys. There was also a significant increase in the number of people who believe strongly that different ideas and perspectives are valued at the Company. The survey also recorded areas where the Company could improve engagement, including building connection to the Company's purpose and strategy. As such during the year ended 31 March 2023, the board introduced various initiatives designed to start addressing this area for improvement, including the launch of the Company's "North Star" statement and refreshed Core Beliefs, as discussed in more detail in "Principle 1 - Purpose and Leadership" of the Corporate Governance Report.

During the year ended 31 March 2023, the board re-introduced detailed exit interviews to gain insight from employees leaving the Company. The learnings from these interviews help the board to determine what actions are required to retain talent going forwards. A project has been implemented to review the Company's People Manager strategy and support, to tie into managers having better conversations with their reports on learning, progression and career development.

Internal conferences for members of the sales team, engineers and new graduates were also held during the year ended 31 March 2023 to motivate employees and set objectives, as well as to provide valuable networking opportunities and enable sharing of best-practice. The Company collected data and sought out learnings from these events through post-conference surveys.

Led by members of the Executive Committee, the Company held Quarterly Business Updates to keep employees informed of Company performance and strategy, as well as cultural topics. These updates enabled direct engagement between the leadership team and employees and provided a forum for questions. In addition, Q&A sessions provided opportunities for employees to meet members of the Executive Committee in a group setting and raise questions and provide feedback. Employees were also kept informed of business developments through a weekly overview of announcements, news, blogs and industry updates circulated by the Company.

In FY22, the Company also held a series of Company-wide webinars focused on the Company's technical strategy, which were well attended and received positive feedback.

Arm Limited

Strategic Report (continued)

Section 172(1) Factor	Board decisions / activities
(c) The need to foster the Company's business relationships with suppliers, customers and others	Stakeholder data and feedback continued to be reviewed at each scheduled board meeting, through the media of corporate governance pre-reads and the CEO's corporate governance briefings, as outlined in the Corporate Governance Report. This enabled the board to take into account stakeholder interests and views when making strategic decisions of the Company and entering into material transactions. As mentioned under Section 172(1)(a) and (f), the Company continues to collaborate efficiently with its partners both face-to-face and remotely, in the light of changes to working trends since the COVID-19 pandemic. The Company has developed a Responsible Procurement strategy which encompasses how Procurement can support the Company's ambitions against the UN Global Sustainable Development Goals and harness the potential of diversity, equity, and inclusion through working with the Company's supplier base. Supply Chain Sustainability targets have been set to support the Company's commitment of becoming Net Zero by 2030 and the Company remains on track to meet this goal (See SECR report page 16) . This commitment covers Scope 3, as well as Scope 1 and Scope 2 emissions. The targets under the net zero commitment across all Scopes specify that by 2030, the Company intends to: • source 100% renewable electricity; • achieve 20% absolute reduction in energy use; • achieve 5% absolute reduction in emissions from travel for work; • achieve 40% absolute reduction in the Company's supply chain emissions; • support and drive innovation in nature and tech-based carbon sequestration solutions; and • empower the Company's people to make low-carbon choices. Through membership of CDP Supply Chain, a global disclosure body managing environmental impacts, the Company is gathering emissions data for Arm's top 500 suppliers. A specialist carbon data consultancy has been engaged by the Company to assist and enable the Company to understand its Scope 3 category 1 and 2 emissions. Such information will be used by the board and leadership to identify areas for improvement on which the Company can work with its suppliers to reduce Scope 3 emissions. Supplier Diversity is a focus area for the Company to make it easier for Small and Medium Enterprises and Minority Owned Businesses to work with the Company, and to offer opportunities to such businesses as a constituent of the Company's supplier base. In addition, the Company is working with its suppliers to confirm that they have an approach to DEI ("Diversity, Equality and Inclusion") that is aligned with that of the Company. To enable the delivery of this the Procurement Team have undergone training in all aspects of responsible procurement to equip them with the knowledge to be able to have the right conversations with suppliers.

Arm Limited

Strategic Report (continued)

Section 172(1) Factor	Board decisions / activities
(d) The impact of the Company's operations on the community and environment	The Company is a foundational technology company with power and energy efficiency at its centre. Based on stakeholder feedback over the years, delivering more compute performance while simultaneously improving energy efficiency is an established driver of the Company and one which could play a role in decarbonization more broadly.

The Company Sustainability Strategy has been designed around four strategic pillars. Decarbonizing Compute and Closing the Digital Divide are the first two pillars. Both of these pillars are underpinned by the pillars of Responsible Technology and Global Problem Solvers.

Decarbonising Compute:

The initial focus of the Company's decarbonising compute strategy is to decarbonise its own business first, in relation to which the Company has set ambitious emission and energy reduction targets, against which it publicly reports progress on an annual basis. The Company made a public commitment in 2020 to be net zero carbon by 2030 and RE100 (Renewable Energy 100%) by 2023; this commitment is supported by several ambitious energy and emission reduction targets for its business. The Company's commitment is described in more detail in Section 172(1)(c) above. During the year ended 31 March 2023 the Company increased the ambition of its overall absolute emissions reduction commitment from 42% to 50% reduction by 2030 – just two years after the initial commitment was set.

The Company published its net zero year two progress report (covering FY21 data) in March 2023, which is available following this link: <https://www.arm.com/company/sustainability/read-our-reports>

Closing the Digital Divide:

The Company recognizes the inequalities associated with technology. Our Social Impact and Innovation Strategy (which focuses on the two pillars of our Sustainability Strategy mentioned above, namely, Responsible Technology and Global Problem Solvers), seeks to help close the digital divide and address inequalities by extending the benefits of technology to the 2.5bn people not currently prioritized in technology development by 2030, focusing on global or globally applicable issues and partnerships as well as issues with a more local impact - Further information on this strategy can be found on the Company's website using the following link: <https://armkeil.blob.core.windows.net/developer/Files/pdf/policies/social-impact-innovation-report-2022.pdf>

Global Social Impact

In February 2022, the Company made a \$1,000,000 donation to UNHCR to support immediate relief for displaced persons as a result of the Ukraine war. Subsequently, the Company has launched an ongoing partnership with UNHCR and their Innovation Services, to connect technology solutions to issues facing displaced people. This was announced internally at a Quarterly Business Update in October 2022, and publicly announced in a press release in March 2023.

Arm Limited

Strategic Report (continued)

Section 172(1) Factor	Board decisions / activities
(d) The impact of the Company's operations on the community and environment (continued)	In September 2022, the Company launched an Arm & UNICEF 7 years of partnership report. Throughout the partnership, we have together directly benefited the lives of 596,000 children and their families, and 11 million indirectly. This has included 1) supporting 700+ entrepreneurs and young creators 2) enabled 20,000 interactions with Arm employees and 3) provided better connectivity to 2.5 million people through GIGA. This was shared internally, and externally on arm.com/sustainability. This is available on this link: https://www.arm.com/-/media/Files/pdf/policies/arm-unicef-partnership-report.pdf?rev=86bc214a0d604cb28f26adca282ccc0a&revision=86bc214a-0d60-4cb2-8f26-adca282ccc0a In October 2022 the Company launched Arm's COVID-19 report internally, marking 2 years of impact driven activities in response to the pandemic. This was shared externally on Arm.com/sustainability in January 2023. Further information on this response and the impact delivered can be found on the Company's website using this link: https://armkeil.blob.core.windows.net/developer/Files/pdf/policies/arm-covid-response-impact-report-interactive.pdf In November 2022, the Company co-hosted a Women in Conservation Technology event in Kenya for Kenyan women in early-stage conservation careers, as part of an ongoing partnership collaboration with Fauna and Flora International and wildlabs.net. This was hosted at Ol Pejeta Conservancy, where Arm also supports a Conservation Technology Hub, developing best practice digital tools for conservation. Further information can be found on this link: https://lnkd.in/d6da8gRb In February 2023, our partnership with Gavi, the Vaccine Alliance and Simprints, a UK-based biometric technology for development company, has rolled out fingerprint biometrics in 15 health facilities in Ghana, and face biometrics in a further 15 facilities, with the technology now being used by over 100 healthcare workers. This project aims to prepare biometric technology for vaccine delivery at scale. With funding from Gavi, Simprints is collaborating with the Ghana Health Services to prepare and deploy interoperable biometrics for vaccine delivery and measure the effect of biometrics on verifying vaccine delivery and reducing duplicate records. Throughout FY22, the Company, through the Social Impact and Innovation team, has supported the Extreme Tech Challenge, a global social innovation competition designed to surface technology solutions to global challenges. It has also supported 18 innovators through the Centre for Global Equality Inclusive Innovation Cultivator, and engaged with multiple high profile speaking and networking opportunities on Tech for Good with Hackster.io, Edge Impulse, and the Bill and Melinda Gates Foundation. You can view the recordings of these engagements on the links below; Hackster Impact: https://www.youtube.com/watch?v=ucE9e9owL4M&list=PLsRBa4uXjihafFluV36ZELi-EVd7uVn3J&index=7 Edge Impulse Imagine: https://www.youtube.com/watch?v=f1JoxKqA99A&list=PL7VEa1KauMQoTnbhpNBvlja2kcPLBTVA3

Arm Limited

Strategic Report (continued)

Section 172(1) Factor	Board decisions / activities
(d) The impact of the Company's operations on the community and environment (continued)	In addition, the Company integrated and improved our monitoring and evaluation framework for impact. The results of this led to publishing the Social Impact and Innovation report. This is the first time we have been able to track our impact cumulatively and collectively across our social impact ecosystem. This has showed that the Company has worked with over 75 external social impact partners, delivering impact to 3.9 million people directly and 20.5 million people indirectly. https://armkeil.blob.core.windows.net/developer/Files/pdf/policies/social-impact-innovation-report-2022.pdf The Company marked Global Goals Week, a UN-organised annual celebration of government, business, and individual contributions to tackling the Global Sustainable Development Goals. The week included the launch of blogs and reports focused on the Company's social and environmental impact, which received over 700 views during the week. <u>Local Social Impact</u> The Company also provides local community support through philanthropic contributions, employee volunteering and community projects. These are co-ordinated by Team Arm, the employee community engagement programme, enabling employees to take individual action on the Global Sustainable Development Goals through volunteering, campaigning and fundraising. The Company addresses charitable and educational causes that relate to issues of national or critical local significance, including STEM-focused education (an interdisciplinary and applied approach to Science, Technology, Engineering and Mathematics), diversity, inclusion and social mobility. In July 2022, the Company partnered with Uptree to deliver its first national workshop for sixth-form students. The purpose of the workshop was to provide insight into working in technology for students from under-resourced and underrepresented backgrounds. In August 2022, the Company partnered with the Girls' Leadership Academy Meetup to deliver a week-long, free, immersive and engaging program for 8 – 12-year-old girls. The programme aimed to increase girls' interest in the world of technology and encourage them to become the trailblazers of tomorrow. Employees of the Company helped with the delivery of the event, in roles ranging from presenters on topics including leadership and entrepreneurship, to delivery of a coding workshop, and judging the participants' final business pitches. Team Arm launched a new pilot partnership with Na'amal, a charity which prepares refugees for remote work through skills training, mentoring and a placement with Massachusetts Institute of Technology's ReACT's Computer and Data Science Certificate program. Employees of the Company also attended FIRST Tech Challenge UK's robotics tournament in London, supporting student teams' competition experience as judges and event volunteers.
(f) the need to act fairly as between members of the Company	During the year ended 31 March 2023, the Company had two shareholders, 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, as also described at the beginning of this Section 172(1) statement.

Arm Limited

Strategic Report (continued)

Going concern

The company reported an operating profit of \$553.4m and net cash from operating activities of \$753.7m for the year ended 31 March 2023 and at 31 March 2023 had no external debt finance, net current assets of \$2,408.0m and a cash and cash equivalents balance of \$1,556.2m. 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.

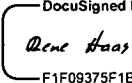
Management acknowledge the significant economic impact of COVID-19 pandemic and the additional level of uncertainty it has introduced, however, the impact was not significant in the forecasts prepared that support the going concern assumption and represent management's best estimates of future events with sufficient headroom to conclude a going concern assumption without a material level of uncertainty.

In March 2022, a subsidiary of Arm's ultimate parent company entered into a facility agreement with financial institutions to borrow \$8.0 billion, providing 75.01% of Arm shares as collateral. The term facility loan was \$7.1 billion and the bridge facility loan \$0.9 billion. The term facility loan is to be repaid in full on maturity, which is the earlier of the date falling three months after the effective date of the listing of Arm and 24 months after the borrowing of the term facility loans. On 24 June 2022 an amendment letter expanded the total commitment to \$8.5 billion via an additional term facility of \$1.4 billion, \$0.9 billion of which was used to repay the bridge facility with the remaining \$0.5 billion representing incremental debt. As of 31 March 2023 the total commitment remained at \$8.5 billion.

75.01% interest in the Company is pledged as collateral for the facility. A springing guarantee, naming Arm as the guarantor, becomes effective on the triggering event of material breach or misrepresentation, an IPO not occurring within 18 months of 28 March 2022 or such intention being announced. On trigger, future events of default fall to the Company if the parent company, which remains primary obligor, even after a guarantee trigger event, defaults. The guarantee terminates at the earlier of an IPO event or the facility being paid or discharged.

The guarantee obligation for the Arm Group exposes Arm to credit risk with a maximum exposure which the Group could have to pay if the guarantee is called upon was \$8.5 billion as at 31 March 2023. Management's estimation of the probability of events triggering the guarantee and resulting in a cash outflow from Arm or transfer of Arm shares is remote and does not cast significant doubt over the going concern assumption. SoftBank as the owner of the immediate parent company may avoid default by restructuring the facility agreement, or otherwise monetizing the collateral for the necessary liquidity to meet payment obligations under the facility agreement. The Company believes that the likelihood of assuming the debt obligation under the guarantee is remote due to the immediate parent company's significant collateralization of the obligations under the facility agreement and that SoftBank will avoid default by the parent company for which the obligations would become enforceable against the Company.

Approved by the Board of Directors and signed on its behalf by:

R Haas 
F1F09375F1BE489...
Chief Executive Officer
Date 28 July 2023

Arm Limited

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2023.

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 34.

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 income statement continuing operations charge for the year ended 31 March 2023 for R&D was \$1,209.1 million (2022: \$915.2 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.

Arm Limited

Directors' Report (continued)

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 (note 35), the Group has no other significant individual concentrations of credit risk, with exposure spread over a 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 2023 (2022: \$828.6 million).

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 (resigned 21 June 2022)

K Dykstra (appointed 16 September 2022)

A Fadell (appointed 16 September 2022)

R Fisher

R Haas

P Jacobs (appointed 1 December 2022)

R Misra (resigned 22 June 2022)

R Schooler (appointed 1 December 2022)

J Sine (appointed 7 September 2022)

M Son

Directors' indemnities

The Company made qualifying third-party indemnity provisions for the benefit of its directors (which extends to the performance of any duties as a director of an associated company) subject to the conditions set out in the Companies Act 2006 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 below entitled 'Corporate Governance Report – Principle 6 – Stakeholders'.

The Company is committed to employment policies regarding applications for employment, continuing employment, training, career development and promotion, which follow best practice, appropriately consider aptitudes and abilities and are 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 Corporate Governance report.

Arm Limited

Directors' Report (continued)

Streamlined Energy and Carbon Report (SECR)

This report focuses on the Energy and Carbon indicators mandated by the SECR. The reporting period is the year ended 31 March 2023. We 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 (kWh)	Year ended 31 March 2022	Year ended 31 March 2023
Transport ¹	34,466	139,112
Electricity	22,790,000	27,706,214
Gas Oil	N/A	110,885
Natural Gas	5,418,000	3,926,364
Total	28,242,466	31,882,575

Carbon emissions

CO ₂ emissions (tCO ₂ e)	Year ended 31 March 2022	Year ended 31 March 2023
Emissions from combustion of gas (Scope 1)	0	0
Emissions from combustion of fuel for transport purposes (Scope 1) ²	0	0
Emissions from electricity purchased for own use, including for the purposes of transport (Scope 2)	45.33	0
Emissions from business travel in Company-owned vehicles or employee-owned vehicles where Company is responsible for purchasing the fuel (Scope 3) ³	8.48	34.32
Total	53.81	34.32

Intensity ratio

CO ₂ emissions (tCO ₂ e)	Year ended 31 March 2022 (FY21)	Year ended 31 March 2023 (FY22)
Emissions from electricity and gas (premises related only) per full time employee (FTE)	0.01	0

Methodology

Energy figures are based on data from all UK sites⁴ and includes electricity and gas where applicable. Output is in kilo watt hours (kWh).

Scope 1: Direct emissions.

Scope 2: Indirect emissions from purchased electricity.

Scope 3: Indirect emissions produced in our value chain.

¹ Excludes hire vehicles.

² Includes Company-owned vehicles only.

³ Excludes hire vehicles.

⁴ Arm has no UK offshore sites

Arm Limited

Directors' Report (continued)

The carbon emissions figures are calculated in accordance with the Greenhouse Gas (GHG) Protocol and outputs are in tCO₂e 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 2021 to calculate the above disclosures.

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

Trends

As can be seen from the tables above, the Company's energy consumption increased across all categories between the year ended 31 March 2022 and the year ended 31 March 2023, except for natural gas use which decreased. Vehicle travel increased most significantly with the return of more face to face meetings and events post Covid. Electricity use in premises also increased with a more significant return to office by employees post Covid. There was also a one off usage of liquid fuel to power a UK data centre during an electricity outage. However, the tables above also show that despite the Company's increase in energy consumption between the year ended 31 March 2022 and the year ended 31 March 2023 its carbon emissions decreased. This is due to the continued use of renewable energy across the UK estate.

Environmental performance

In 2020 Arm committed to reducing absolute GHG emissions by 42% (179,774 tCO₂e) and to become net zero carbon by 2030 across all emissions sources (scopes) in line with a 1.5°C pathway and the Paris Agreement versus the year ended 31 March 2020. This is a global commitment across all countries of operation including the UK. In the year ended 31 March 2023, following Sustainability Committee and Sustainability Team review, Arm increased the ambition of this net zero target from 42% absolute reduction (179,774 tCO₂e) to 50% absolute reduction (214,017 tCO₂e).

We have set individual targets across the different scopes and emissions categories to deliver our net zero commitment by 2030 across all geographies where we operate including the UK, including:

- To source 100% of electricity consumption from renewable sources by the year ended 31 March 2023 and achieve RE100 (Renewable Energy 100%) status
- To reduce absolute emissions from supply chain by 42% by 2030
- To reduce absolute emissions from business travel by 7% by 2030

We publicly report progress towards our net zero target each year and are on track to meet this target.

Arm Limited

Directors' Report (continued)

Auditor

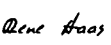
Each of the persons who is a director at the date of approval of this report confirms that:

- 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 ought to have taken as a director in order to make himself 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 of Directors and signed on its behalf by:

DocuSigned by:

R Haas F1F09375F1BE489...
Chief Executive Officer

Date: 28 July 2023

Arm Limited

Corporate Governance Report

Since FY19, the board has been applying and reporting against The Wates Corporate Governance Principles for Large Private Companies (the "**Wates Principles**"). Throughout the year ended 31 March 2023, the directors evaluated how the Company applies and can continue to build upon its application of the Wates Principles and engagement with stakeholders, as described in this Corporate Governance Report. The application of the Wates Principles is supported by the Company's leadership, including through adopting the following approach in relation to board meetings:

1. Prior to the board meeting, the board has access to a Corporate Governance pre-read briefing note containing details of recent and planned stakeholder engagement as well as outcomes and feedback from the last quarter as well as a reminder of the directors' duties under section 172(1) of the Companies Act 2006; and
2. During the board meeting, the CEO presents a summary of outcomes from recent stakeholder engagement activity to the board.

These actions, taken together, provide regular information to the board about the Company's key stakeholders and the engagement activity that has taken place, enabling board discussion and decision-making to be informed by relevant issues, feedback raised, and outcomes as a result of such engagement. During the year ended 31 March 2023, the directors have continued to review how the Company can improve its application of the Wates Principles and engagement with its stakeholders, and have made the following progress:

1. Articulating a new "north star" statement to set out the Company's refined purpose and updating the Company's Core Beliefs to better engage with the Company's workforce;
2. Seeking recommendations from a cross-functional taskforce to review and elevate the Company's ESG practices;
3. Progressing Supply Chain Environmental Sustainability targets through membership of CDP Supply Chain to gather emissions data from our top 500 suppliers by spend;
4. Introducing new director self-assessment surveys to inform decisions around director onboarding and board composition; and
5. Revising the board reserved matters, to be adopted during the year ended 31 March 2024, to ensure effective engagement with shareholders and other stakeholders, the alignment of Arm's purpose, values and strategy with Arm's culture, and board involvement in the governance structure.

Set out below is an overview of how the Company has applied the Wates Principles in the year ended 31 March 2023, including aspects that have changed since the year ended 31 March 2022 report on the Company's application of the Wates Principles.

Arm Limited

Corporate Governance Report (continued)

Principle 1 - Purpose and Leadership

Following the appointment of the new CEO of the Company in February 2022, the Company's leadership team has articulated the Company's refined mission and vision strategy. In September 2022, the Company articulated a new "north star" statement setting out the Company's purpose: "Building the future of computing, on Arm. Together. For everyone". Additionally, the Company updated its core beliefs, outlined below, which are communicated and applied by the Company on an ongoing basis:

- "Do great things - Working at pace, embracing challenges, finding a way";
- "We, not I - Win together, not alone"; and
- "Be your brilliant self - Skillful individuality, performance and inclusion".

While the second two statements were already core beliefs of the Company and remain central to the Company's values, this reboot entailed the update of the first core belief. This pillar to the Company's philosophy has been introduced to inspire the Company's people to work at pace, embrace challenges and find a way to make things happen. Together, these core beliefs articulate the Company's culture as a high trust, supportive and flexible working environment, with focus on imagination, ingenuity and fun.

These core beliefs are continuously affirmed and built up by the Company, for example, through regular employee surveys, particularly the "Life at Arm" Pulse Survey, which explores sustainable engagement as well as other areas reflecting the current business needs, in order to review employees' experience at Arm in accordance with the Company's values and to measure engagement. Please see the section below entitled "*Principle 6 - Stakeholders*" for further information regarding employee, and broader stakeholder, engagement. Both the "north star" statement and the updated core beliefs have been promoted by leadership through their launch in an all-Company meeting in September 2022, as well as through ongoing dialogue with employees, focused on connecting to the "north star" objective and these core beliefs, which continued throughout the year ended 31 March 2023.

Principle 2 - Board Composition

The board has grown in size, depth and experience during the year ended 31 March 2023 and currently consists of eight directors, of which seven are non-executive and one is executive. Of these directors, five were appointed during the year ended 31 March 2023. Four of the new directors appointed are independent of the Company and its shareholders, bringing external perspective to the board. The new non-executive directors have a diversity of skillsets and backgrounds, and introduce expertise in banking, finance, investment and product design, with a focus on the technology sector. The technology focus, as well as access to these broad areas of expertise, mean that the board collectively holds a high-level understanding of the Company's industry and current needs, as well as the interests of its stakeholders. There is increasing gender diversity in the Company's leadership through these new appointments, with a quarter of the current board being female. This represents the Company's focus on improving gender diversity in leadership positions and throughout the organisation.

Furthermore, the directors are from a variety of nationalities, backgrounds and gender, including members of both Japanese and American nationality/origin. The biographies of the current board can be found on the "Board of Directors" page of the Arm website, and the Company's DEI initiatives are available at: <https://www.arm.com/company/sustainability>

The roles of Chairman and CEO remain separate, and there is an appropriate division of responsibility, accountability and decision-making within the board.

Additionally, the Company's directors and all employees are subject to Arm's compliance policies, including, among others, the Code of Conduct, Anti-trust, Anti-bribery and Anti-corruption, with additional information, support and training available to them.

Arm Limited

Corporate Governance Report (continued)

The new Executive Committee, formed during the year ended 31 March 2022 following the appointment of the new CEO, has continued to provide support to the board throughout the year ended 31 March 2023 through its day-to-day management of the Company.

During the year ended 31 March 2023, new director surveys were introduced for the recently appointed directors of the Company. These surveys included a skills self-assessment, introduced to align each director's qualifications, skills and experiences with those identified by the Company as being important for an effective board, an "Open Dialogue" survey to enable effective corporate governance and meaningful board interactions, and a logistics and scheduling survey to assist with the scheduling of upcoming board of directors meetings.

Principle 3 - Directors' Responsibilities

The board continues to maintain oversight of the Company's activities through appropriate delegation, governance controls and reporting processes. As mentioned above, in order consistently to reaffirm director accountability and responsibility, in advance of each board meeting the CEO and Chief Legal Officer prepare a board pack that includes a briefing paper on director duties, a stakeholder engagement report and other pre-read materials prepared by executive management teams. This process is upheld to enable effective decision-making by the board and to provide clarity over its responsibilities and relevant considerations, when making decisions.

The Company seeks to facilitate discussion and understanding of the standards expected of its leadership. Those members of the board on-boarded during the year ended 31 March 2023 received a formal "onboarding" session to the Company which covered the Company's corporate governance framework and provided opportunity for discussion and to raise any queries.

In February 2021, a self-assessment was conducted to review the governance arrangements of the Company, one of the results of which was a recommendation to update the terms of reference of the board committees of the Company. As such, new terms of reference are being developed for the board committees, and are anticipated to be adopted during the year ended 31 March 2024.

To maintain the Company's high standards of business conduct, the Audit Committee is also required to assess and confirm its own independence at least annually through an independence questionnaire that examines the nature of the committee members' relationship with the Arm group.

The board committees meet regularly, offering regular updates to the board to inform its decision making. As part of the decision-making process of the board, the board considers any potential conflicts of interest in the ordinary course of the board's activities, as with the impact of its decision-making processes on key stakeholders.

The Company's board reserved matters were reviewed during the year ended 31 March 2023. The Company plans to adopt these revised reserved matters during the year ended 31 March 2024. Reserved matters include matters having a material impact on the Company and the wider Group relating but not limited to strategy, structure and capital allocation, financial reporting and controls, material contracts and investments, board membership, and senior appointments and remuneration. The updates were implemented to enable the reporting and escalation of matters to the board as necessary.

Principle 4 - Opportunity and Risk

The Company has a well-developed system for identifying opportunities to promote the long-term sustainable success of the Group and to preserve its value, as well as internal committees and control processes to identify, manage and mitigate risk. The Executive Committee, the Audit Committee, the Risk Review Committee, the Compliance Committee, and the Sustainability Committee are fundamental to this process.

The Company's Risk Review Committee identifies, assesses, and monitors key operational risks of the business. This includes analysing emerging risks and identifying plans to mitigate potential impacts. The Risk Review Committee, together with the board, is currently assessing the Company's Environmental, Social and Governance (ESG) practices. The Company's stakeholder engagement programme assists the Company in taking into account risks and opportunities identified by key stakeholders.

Arm Limited

Corporate Governance Report (continued)

A cross-functional taskforce formed during the year ended 31 March 2023 to review and elevate the Company's ESG practices developed a series of recommendations during the year ended 31 March 2023 relating to the further integration of ESG into the Company's practices as well as the development of reporting to communicate the Company's ESG value proposition and demonstrate long-term value creation and protection to key stakeholders, and this work is expected to continue into the year ending 31 March 2024.

A key focus for this financial year has been to enable progression on the United Nations' Global Sustainable Development Goals through the Arm Sustainability Strategy, which identifies the following areas as areas of strategic focus:

1. Working to decarbonize compute, focusing on reducing our own emissions as a first step; and
2. Working to close the digital divide and reducing inequalities, through extending the benefits of technology to people and areas yet to benefit enabling information, opportunity, and choice.

The Company's revised "north star" statement, "Building the future of computing, on Arm. Together. For everyone.", emphasises this drive for progression and future-building. The Company's Sustainability Strategy, while mitigating risk, therefore also embraces opportunity for innovation, in order to close the digital divide through the sharing of information about, and through, technology. The Company's commitment is described in more detail in Section 172(1)(d) of the "Strategic Report - Section 172(1) statement" above.

As a "high turnover company," the Company is required to publish climate-related financial disclosures in its year ending 31 March 2024 reporting. Work started during the year ended 31 March 2023 to prepare the company for such reporting, which work is also enabling the Company to make informed decisions about any future business transition planning.

Principle 5 - Remuneration

The Remuneration Committee is responsible for recommending remuneration policies to the board concerning pay strategy, recruitment, retention and incentivisation. These policies align with the Company's purpose and core beliefs, while taking into account the pay and working conditions of employees in the Group and the broader operating environment in which the Company operates. Executive compensation is linked to long-term performance and has been expanded during the year ended 31 March 2023 to include additional senior executives bringing value to the Company.

Each year, we conduct a Pay Gap Analysis in the UK. Since more men work in technical functions across all grades at Arm than women, particularly within our engineering functions, our UK Gender Pay Gap score is directly impacted. However, we are happy to say that the work we have done in advancing DEI has enabled us to show progress in all areas since our last report:

1. Our median gender pay gap has reduced by 1.47%.
2. Our mean gender pay gap has reduced by 2.64%
3. Our bonus gender pay gap has reduced by 8.25%

Principle 6 - Stakeholders

As mentioned above, the CEO provides a Corporate Governance pre-read briefing with an emphasis on stakeholder engagement at each scheduled board meeting. The board meetings provide opportunity for dialogue amongst the board and ensure that the board has access to stakeholder views and engagement strategies when making their decisions. During the year ended 31 March 2023 the Company has continued to review and assess how it can improve engagement with its key stakeholders and to identify where more targeted engagement may be required in the future.

Set out below is a summary of the key engagement activities with and notable decisions made impacting the key stakeholders of the Company during the year ended 31 March 2023.

Arm Limited

Corporate Governance Report (continued)

Customers

During the year ended 31 March 2023, the Company has continued to engage with its customers globally. The Company saw continued strong engagement with its key customers, and although this engagement has remained largely remote, in-person engagement opportunities have started to increase in the light of relaxations in COVID-19-related restrictions in many regions. This trend appears set to continue across the Company's customer base, albeit not reaching pre-pandemic levels due to the evolution of expectations across the customer base. Remote engagement remains the norm for Company-customer interactions, and it is proving effective.

During the year ended 31 March 2023 the in-person Arm Partner Meeting event in August 2022 provided opportunity to start to rebuild face-to-face connections with customers.

The Company continues to offer structured review meetings with partners on a regular basis, in the form of strategic management reviews and technical reviews, as well as regular calls with customer account teams.

Suppliers

The Company has developed a "Responsible Procurement Strategy" which encompasses how Procurement can support Arm's fulfilment of the UN Global Sustainable Development Goals. Supply Chain Sustainability targets have also been set to support the Company's aim of becoming Net Zero by 2030 and data has been gathered to compare the results of the previous year. This analysis will enable the identification of areas of opportunity to collaborate with suppliers to reduce emissions.

The Company looks to encourage supplier diversity, as well as to work with small and medium enterprises and minority-owned businesses. Furthermore, the Company is working with its suppliers to confirm that they have an approach to DEI that is aligned to that of the Company, in order to ensure consistency with the Company's core values.

Employees

During the year ended 31 March 2023, the Company has continued to engage with employees, through the annual survey mentioned under Principle 1 as well as in the section entitled "*Strategic Report - Section 172(1) statement*", as well as through internal conferences for members of the sales team, engineers and new graduates. These engagement opportunities have been implemented to provide motivation for the coming year, the ability to share best practice, and to enable valuable networking opportunities. Surveys following these events provided insight and data on employee engagement.

The reintroduction of detailed exit interviews this financial year has provided the Company with insight into attrition, from which the learnings will assist the Company in retaining talent. The implementation of the Company's North Star statement and updated Core Beliefs was one such initiative designed to start addressing areas identified for improvement, and stemmed from a project to review the Company's current culture, in which more than half of the Company's employees participated.

The Company also holds quarterly business updates for its employees, in the form of all Company meetings led by the Executive Committee. Within these, the Executive Committee provides updates on business performance and strategy, and other key areas such as rewards, sustainability and, for the year ended 31 March 2023, the updated Core Beliefs. These updates are broadcast and recorded and provide an opportunity for the leadership team to communicate directly with employees and align and involve them with the broader business strategy and objectives. Employee input is encouraged via ongoing Q&A sessions with Executive Committee members and senior leadership, smaller "breakfast" sessions and through the distribution of a weekly overview of Company announcements, news and industry updates to employees.

The Company's DEI strategy has four pillars: people, culture, leadership and partnerships. The Company's DEI commitment is that each day, it will enable every voice to be heard, create equitable opportunities and experiences for all, and bring the best people into the Company from the broadest talent pool. Connected with the Company's DEI strategy, employee resource groups ("ERGs") for underrepresented employees operate with formal

Arm Limited

Corporate Governance Report (continued)

support from the Company and provide additional employee development and training. Optional leadership training sessions for members of the ERG committees continued during the year ended 31 March 2023, delivered by an external expert. These sessions helped to build capabilities in leadership and communication among the Company's ERG leaders, in line with the Company's strategy for DEI.

Please see "*Principle 2 - Board Composition*" for the link to further information on the Company's DEI initiatives. The Company also provides on-going opportunities for its employees to use company time to support the Global Sustainable Development Goals through volunteering, campaigning and fundraising, in partnership with local and global non-profit and charitable organisations. During the year ended 31 March 2023, the Company increased the time employees can use to volunteer to half a day a month.

The Company's review of its business plan led the Company to implement redundancies across its global workforce during the year ended 31 March 2023, as also referenced in the "*Strategic Report - Section 172(1) statement*" above.

Environment

A key focus for this financial year has been to enable progression on the United Nations' Global Sustainable Development Goals through the Arm Sustainability Strategy, which identifies several areas of strategic focus. These areas are explored in detail in Section 172(1)(d) of the "*Strategic Report - Section 172(1) statement*" above. The following are highlights of environmental initiatives during the year ended 31 March 2023 arising from key stakeholder engagement:

- progressing Supply Chain Environmental Sustainability targets, as detailed in Section 172(1)(c) of the "*Strategic Report - Section 172(1) statement*", by gathering emissions data from the Company's top 500 suppliers;
- setting net zero carbon targets and making ambitious emission reduction targets, as detailed in Section 172(1)(d) of the "*Strategic Report - Section 172(1) statement*";
- establishing a new corporate partnership with Carbon13 which works with founders to build startups that can reduce emissions by millions of tonnes;
- partnering with Pachama to support carbon offset projects for the first time in Borneo, which aims to keep at risk forests standing and support local communities. Pachama uses the power of remote sensing and AI to better protect carbon sinks. Arm's offsetting policy is additional to its net zero emissions reduction commitment and acknowledges that we are on an emissions reduction trajectory to 2030 and that offsets can provide additional environmental and social benefits as we transition; and
- implementing a series of internal communications to raise awareness and understanding of some key climate related topics of relevance to Arm and the technology sector, including the publication of seven internal papers.

Public Organisations

The Company engages with public organisations as key stakeholders, including governmental and intergovernmental bodies, trade associations and NGOs. Primary responsibility for these stakeholders is split across the business.

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 United Kingdom adopted international accounting standards. The directors have chosen to prepare 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 of the financial reporting framework 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.

Independent auditor's report to the members of Arm Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- 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 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- 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 balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the related notes to the consolidated financial statements, 1 to 36,
- the company balance sheet,
- the company statement of changes in equity, and
- the related notes to the company financial statements, 37 to 51.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, and United Kingdom adopted international accounting standards. 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 opinion

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 opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the relevance and reliability of the underlying data used in the going concern assessment;
- Evaluating the group's and parent company's current year performance;
- Assessing managements assumptions used in the forecast, including linkage to the group's business model and operations, and evaluating other external information such as industry data for corroborative or contradictory evidence;
- Assessing management's estimate of the probability of events triggering the springing guarantee and resulting in a cash outflow from Arm;
- Performing a sensitivity analysis on managements forecast to determine the impact a reduction in revenue would have on Adjusted EBITDA as well as determining the point at which default would occur and the likelihood of it occurring;
- Assessing the historical accuracy of forecasts prepared by management; and
- Evaluating of the group's and parent company's disclosures on going concern against the requirements of IAS 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

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 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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's anti-trust responsibilities and the commitments made under the Takeover Code.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, IT and forensic regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in significant assumptions applied for large and complex licencing contracts. This includes the evaluation of contract terms, identification of promises, and the allocation of transaction price to the identified performance obligations within the contract where the assumptions are more susceptible to management bias either due to limited support available or non-standard terms. We have performed detailed testing procedures for all material contracts entered into the audit period to gain an understanding of the specific contract terms, including significant assumptions and judgments used by management in determining the appropriate accounting treatment. We have also sent customer

confirmations to confirm the completeness of contracts and ensure no side agreements exist. We have made inquiries of management inside and outside of the finance function and tested the design of the controls over management's process for reviewing contracts and the Company's sales certification process in identifying side agreements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with government agencies.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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.

In the light of the knowledge and understanding of the group and of the parent company and its 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

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

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.

A handwritten signature in black ink, appearing to read 'P Franek', followed by a long horizontal line extending to the right.

Paul Franek FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
28/07/2023

Arm Limited
Consolidated Income Statement
For the year ended 31 March 2023

		2023	2022
	Note	\$ 000	\$ 000
Revenue	5	2,679,205	2,703,524
Cost of sales		(109,925)	(134,054)
Gross profit		2,569,280	2,569,470
Research and development costs		(1,209,110)	(915,177)
Selling, general and administrative expenses		(803,693)	(857,402)
Impairment of investments and other assets	6	(3,090)	(35,653)
Operating profit		553,387	761,238
Finance income	9	44,442	5,318
Reclassification of OCI on disposal of associate	19	—	32,415
Finance costs	10	(7,616)	(7,293)
Share of results of associates	19	1,142	13,425
Profit before tax		591,355	805,103
Tax	11	(137,990)	(208,838)
Profit for the year from continuing operations		453,365	596,265
Discontinued operations			
Loss for the year from discontinued operations	12	—	(125,325)
Profit for the year		453,365	470,941

All the profit for the year is attributable to the owners of the Company.

Arm Limited**Consolidated Statement of Comprehensive Income
For the year ended 31 March 2023**

		2023	2022
	Note	\$ 000	\$ 000
Profit for the year		453,365	470,941
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(28,555)	457
Share of results of associates	19	(545)	(4,349)
Reclassification of OCI on disposal of associate	19	—	(32,415)
Cash flow hedges - fair value gains in the year	33	5,568	—
Cash flow hedges - gains transferred to the income statement		4,622	—
Deferred tax on cash flow hedges		(2,547)	—
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods		(21,457)	(36,307)
Items that may not be reclassified subsequently to profit or loss:			
Investment revaluation	33	(45,800)	81,516
Deferred tax on investment revaluation	24	6,694	(34,506)
Other comprehensive (expense)/income that may not be reclassified to profit or loss in subsequent periods		(39,106)	47,010
Other comprehensive (expense)/income for the year net of tax		(60,563)	10,703
Total comprehensive income for the year		392,802	481,644

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

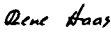
Arm Limited**Consolidated Balance Sheet (Registered Number: 02557590)****As at 31 March 2023**

		2023	2022
	Note	\$ 000	\$ 000
Non-current assets			
Goodwill	14	1,605,744	1,622,680
Other intangible assets	15	138,419	204,766
Property, plant and equipment	16	176,738	181,046
Right-of-use assets	17	204,210	230,249
Investments in associates	19	115,880	116,958
Investments	20	599,239	613,902
Contract assets	22	115,734	100,456
Tax assets		18,807	6,489
Trade and other receivables	23	147,254	147,030
Financial assets held at fair value through profit and loss	33	30,901	29,002
Deferred tax assets	24	173,148	128,584
		<u>3,326,074</u>	<u>3,381,162</u>
Current assets			
Inventories	21	1,813	1,998
Contract assets	22	153,649	166,480
Trade and other receivables	23	1,154,165	1,279,389
Current tax assets		903	7,538
Deposits	29	660,546	630,573
Cash and cash equivalents	29	1,556,189	1,006,153
Derivative financial instruments	33	9,816	128
		<u>3,537,081</u>	<u>3,092,259</u>
Total assets		<u>6,863,155</u>	<u>6,473,421</u>
Current liabilities			
Trade and other payables	25	584,598	846,523
Current tax liabilities		171,561	171,128
Lease liabilities	17	26,828	33,515
Contract and other related liabilities	32	293,401	333,648
Provisions	26	52,232	49,708
Derivative financial instruments	33	510	9,541
		<u>1,129,130</u>	<u>1,444,062</u>
Net current assets		<u>2,407,951</u>	<u>1,648,197</u>

Arm Limited**Consolidated Balance Sheet (Registered Number:02557590) (continued)****As at 31 March 2023**

	Note	2023 \$ 000	2022 \$ 000
Non-current liabilities			
Trade and other payables	25	65,498	140,452
Deferred tax liabilities	24	247,845	266,852
Lease liabilities	17	188,176	226,281
Provisions	26	10,203	14,733
Contract and other related liabilities	32	806,824	792,441
Liability for share-based payments	30	256,031	4,538
		<u>1,574,577</u>	<u>1,445,297</u>
Total liabilities		<u>2,703,707</u>	<u>2,889,359</u>
Net assets		<u>4,159,448</u>	<u>3,584,061</u>
Equity attributable to owners of the Company			
Share capital	27,28	1,273	1,273
Share premium account	28	583,279	583,279
Share-based payments	8, 28, 30	281,205	98,620
Capital reserve	28	439,757	439,757
Translation reserve	28	420,611	449,166
Investment revaluation reserve	28	316,716	355,822
Cash flow hedge reserve	33	7,643	—
Retained earnings	28	2,108,964	1,656,144
Total equity		<u>4,159,448</u>	<u>3,584,061</u>

The financial statements were approved by the Board of Directors and authorised for issue on and were signed on its behalf by:

DocuSigned by:

 R Haas
 F1F09375F18E489...
 Chief Executive Officer
 28 July 2023

Arm Limited**Consolidated Statement of Changes in Equity
For the year ended 31 March 2023**

		Equity attributable to equity holders of the Company								
	Note	Share capital	Share premium account	Share-based payments	Capital reserve	Translation reserve	Investment revaluation reserve	Cash Flow Hedge Reserve	Retained earnings	Total equity
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Balance at 1 April 2021		1,273	583,279	—	439,757	481,124	308,812	—	2,018,159	3,832,404
Profit for the year		—	—	—	—	—	—	—	470,941	470,941
Other comprehensive income/(expense) for the year:										
Currency translation adjustment		—	—	—	—	457	—	—	—	457
Share of results of associates	19	—	—	—	—	—	—	—	(4,349)	(4,349)
Reclassification of OCI on disposal of associate		—	—	—	—	(32,415)	—	—	—	(32,415)
Investment revaluation		—	—	—	—	—	81,516	—	—	81,516
Deferred tax on investment revaluation	24	—	—	—	—	—	(34,506)	—	—	(34,506)
Total comprehensive income/(expense) for the year		—	—	—	—	(31,958)	47,010	—	466,592	481,644
Dividend in specie	13	—	—	—	—	—	—	—	(828,607)	(828,607)
Share-based compensation	30	—	—	98,620	—	—	—	—	—	98,620
Balance at 31 March 2022		1,273	583,279	98,620	439,757	449,166	355,822	—	1,656,144	3,584,061
Balance at 1 April 2022		1,273	583,279	98,620	439,757	449,166	355,822	—	1,656,144	3,584,061
Profit for the year		—	—	—	—	—	—	—	453,365	453,365
Other comprehensive income/(expense) for the year:										
Currency translation adjustment		—	—	—	—	(28,555)	—	—	—	(28,555)
Share of results of associates	19	—	—	—	—	—	—	—	(545)	(545)
Investment revaluation		—	—	—	—	—	(45,800)	—	—	(45,800)
Deferred tax on investment revaluation	24	—	—	—	—	—	6,694	—	—	6,694
Cash flow hedges - fair value gains in the year	33	—	—	—	—	—	—	5,568	—	5,568
Cash flow hedges - gains transferred to the income statement		—	—	—	—	—	—	4,622	—	4,622
Deferred tax on cash flow hedges	24	—	—	—	—	—	—	(2,547)	—	(2,547)
Total comprehensive income/(expense) for the year		—	—	—	—	(28,555)	(39,106)	7,643	452,820	392,802
Share-based compensation	30	—	—	168,785	—	—	—	—	—	168,785
Deferred tax on share-based compensation		—	—	13,800	—	—	—	—	—	13,800
Balance at 31 March 2023		1,273	583,279	281,205	439,757	420,611	316,716	7,643	2,108,964	4,159,448

Arm Limited
Consolidated Statement of Cash Flows
For the year ended 31 March 2023

		2023	2022
	Note	\$ 000	\$ 000
Net cash from operating activities	29	<u>749,126</u>	<u>493,793</u>
Investing activities			
Interest received		35,016	5,208
Purchases of property, plant and equipment		(74,308)	(34,354)
Purchases of intangible assets		(69,276)	(78,124)
Investments in associates		(1,650)	(100)
Purchases of trading investments		(11,593)	(6,186)
Payments for financial assets at fair value through profit and loss		—	(29,002)
Purchase of other investments		(2)	—
Proceeds from maturity of deposits	29	1,080,527	245,433
Investments in deposits	29	(1,110,500)	(750,430)
Long-term loans granted		(1,715)	(4,964)
Net cash used in investing activities		<u>(153,501)</u>	<u>(652,519)</u>
Financing activities			
Payments on lease liabilities	29	(30,670)	(46,369)
Short-term loans received		—	50,000
Net cash (used in)/generated by financing activities		<u>(30,670)</u>	<u>3,631</u>
Net increase/(decrease) in cash and cash equivalents		564,956	(155,094)
Cash and cash equivalents at beginning of year		1,006,153	1,215,169
Disposal of cash due to distribution/sale of subsidiaries	12	—	(42,946)
Effect of foreign exchange rate changes		(14,920)	(10,977)
Cash and cash equivalents at the end of the year		<u>1,556,189</u>	<u>1,006,153</u>

Arm Limited

Notes to the Consolidated Financial Statements

For the year ended 31 March 2023

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 of Arm Limited and its subsidiaries and the nature of the Group's operations are disclosed in the Directors' Report and the Strategic Report on pages 14 and 1 respectively.

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 41.

During the year, there were changes to the composition of the Group as three subsidiaries were voluntarily liquidated. Details of subsidiaries disposed of during the year ended 31 March 2022 and liquidated during the year ended 31 March 2023 are disclosed in note 12.

2 Adoption of new and revised standards

New and amended IFRS standards that are effective for the current year

The Group has adopted the following new and amended standards during the year, which have had no material impact on the financial statements: Amendments to *IFRS 3 Business Combinations* (Reference to the conceptual framework), Amendments to *IAS 16 Property Plant and Equipment* (Proceeds before intended use), Amendments to *IAS 37 Provisions, Contingent Assets and Contingent Liabilities* (Cost of fulfilling a contract) and Annual Improvements from the 2018-2020 cycle on IFRS 1, IFRS 9 and IAS 41.

New and revised IFRS standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS standards that have been issued but are not yet effective.

IFRS 17 (including the June 2020 amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 1	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred tax related to Assets and Liabilities arising from a single transaction

The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

Arm Limited

Notes to the Consolidated Financial

For the year ended 31 March 2022

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently assessing the impact of the amendments.

Disclosure of Accounting Policies - Amendments to IAS 1

In February 2021, the IASB issued amendments to IAS 1 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exemption under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Group is currently assessing the impact of the amendments.

The amendments to IAS 1 for Classification of Liabilities as Current or Non-current and IAS 8 for definition of accounting estimates are not expected to have a material impact on the Group's 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 United Kingdom (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 US dollars, which is the Group's reporting, 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 effect 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

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023**

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 Restricted Stock Units (RSUs), 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';
- 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.

The financial statements of the Company are consolidated in these financial statements which are publicly available from Companies House, Crown Way, Cardiff, CF12 3UZ.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****Significant accounting policies (continued)****Going concern**

The company reported an operating profit of \$553.4m and net cash from operating activities of \$749.1m for the year ended 31 March 2023 and at 31 March 2023 had no external debt finance, net current assets of \$2,408.0m and a cash and cash equivalents balance of \$1,556.2m.

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, the impact was not significant in the forecasts prepared that support the going concern assumption and represent management's best estimates of future events with sufficient headroom to conclude a going concern assumption without a material level of uncertainty.

In March 2022, a subsidiary of Arm's ultimate parent company entered into a facility agreement with financial institutions to borrow \$8.0 billion, providing 75.01% of Arm shares as collateral. As of 31 March 2022, the term facility loan was \$7.1 billion and the bridge facility loan \$0.9 billion. The term facility loan is to be repaid in full on maturity, which is the earlier of the date falling three months after the effective date of the listing of Arm and 24 months after the borrowing of the term facility loans. On 24 June 2022 an amendment letter expanded the total commitment to \$8.5 billion via an additional term facility of \$1.4 billion, \$0.9 billion of which was used to repay the bridge facility with the remaining \$0.5 billion representing incremental debt. As of 31 March 2023 the total commitment remained at \$8.5 billion.

75.01% interest in the Company is pledged as collateral for the facility. A springing guarantee, naming Arm as the guarantor, becomes effective on the triggering event of material breach or misrepresentation, an IPO not occurring within 18 months of 28 March 2022 or such intention being announced. On trigger, future events of default fall to the Company. The guarantee terminates at the earlier of an IPO event or the facility being paid or discharged.

The guarantee obligation for the Arm Group exposes Arm to credit risk with a maximum exposure which the Group could have to pay if the guarantee is called upon was \$8.5 billion as at 31 March 2023. Management's estimation of the probability of events triggering the guarantee and resulting in a cash outflow from Arm or transfer of Arm shares is remote and does not cast significant doubt over the going concern assumption (see note 4 for further detail).

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****Significant accounting policies (continued)****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.

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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Basis of consolidation (continued)

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 intra-group 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 (that is 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.

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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Business combinations – acquisition accounting (continued)

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 each cash-generating unit (CGU), or groups of cash-generating units, that the Group expect to benefit from the business combination. Each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes. CGUs or group of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU or group of CGUs may be impaired. If the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs, 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 CGU or group of CGUs, 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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Investments in associates

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 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'. Where instruments are held via instruments other than ordinary shares, these are stated at fair value.

Under the equity method, investments in associates 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. When the Group's share of losses of an associate 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.

Investments in associates are accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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. 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 of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not held by the Group.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or a joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or a joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or a joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate or joint venture is disposed of.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

In the individual accounts of the Company, interests in joint ventures and associates are stated at historic cost less accumulated impairment losses. Where instruments are held via instruments other than ordinary shares, these are stated at fair value.

Revenue

The Group recognizes revenues for the transfer of products or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those products or services. The principle is achieved through the following five-step approach:

- Identification of the contract with the customer;
- Identification of the performance obligations;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Group satisfies a performance obligation.

Revenue for the Group's major product offerings consists of the following:

License and Other Revenue

- Intellectual property license — The Group generally licenses IP under non-exclusive license agreements that provide usage rights for specific applications for a finite or perpetual term. These licenses 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, version extensions of architecture IP or releases of IPs, and support services. Support services consist of a stand-ready obligation to provide technical support, patches, and bug fixes over the support term. Revenue allocated to the IP license is recognized at a point in time upon the delivery or beginning of license term, whichever is later. Revenue allocated to distinct version extensions of architecture IP or releases of IP, excluding when-and-if-available minor updates over support term, are recognized at a point in time upon the delivery or beginning of license term, whichever is later.
- Software sales, including development systems — Sales of software, including development systems, which are not specifically designed for a given license (such as off-the-shelf software), are recognized upon delivery when control has been transferred and customer can begin to use and benefit from the license.
- Professional services — 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 accounted for separately. Training revenue is recognized as services are performed. Revenue from professional and design services are recognized over time using the input method based on engineering labor hours expended to date relative to the estimated total effort required. For such professional and design services, the Group has an enforceable right to payment for performance completed to date, which includes a reasonable profit margin and the performance of such services do not create an asset with an alternative use.
- Support and maintenance — Support and maintenance is a stand-ready obligation to the customer that is both provided and consumed simultaneously. Revenue is recognized on a straight-line basis over the period for which support and maintenance is contractually agreed pursuant to the license.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Royalty Revenue

For certain IP license agreements, royalties are collected on products that incorporate the Group's IP. Royalties are recognized on an accrual basis in the quarter in which the customer ships their products, based on the Group's technology that it contains. The accrual is estimated using trend analysis based on market and sales data as well as customer-specific financial information. As a result of estimating the amount of royalty revenue accrual in the period in which the customer sales occur using estimates based on sales trends and product information, adjustments to revenues are required in subsequent periods to reflect changes in estimates as new information becomes available, primarily resulting from actual amounts subsequently reported by the licensees.

Significant Judgments

– Identification of the Contract with the Customer

The Group accounts for a contract as a revenue contract when all of the following criteria are met:

- The contract has been approved (either in writing, orally or in accordance with other customary business practices) by the parties to the contract, and the parties are committed to perform their respective obligations;
- The Group can identify each party's rights regarding goods or services to be transferred;
- The Group can identify the payment terms for the goods or services to be transferred;
- Contracts have commercial substance; and
- It is probable that the Group will collect substantially all the consideration to which it will be entitled to, in exchange for the goods or services to be transferred to the customer.

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. Judgment 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, obligations in the contracts constitute 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 judgment 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.

The Group sometimes enters into non-cancellable and non-refundable committed funds arrangement from customers, where the parties have ongoing negotiations. Judgment is required in evaluating whether all rights and obligations of the arrangement are determined and enforceable.

Judgment is also required in determining whether collectability of substantially all of the consideration is probable. The Group assesses this through credit checks, past payment history or based on upfront payment prior to performance of the obligation(s).

– Identification of The Performance Obligations

Customer contracts often include various products and services as outlined in the summary of major product groups above. Typically, these products and services qualify as separate performance obligations, and a portion of the contractual value is allocated to them. Judgment is required, however, in determining whether a good or service is considered a separate performance obligation.

When selling licenses or services, the Group frequently grants customers the choice to acquire additional rights, goods or services (for example, renewals of offerings, version extensions through term renewals, additional future products, or additional volumes of purchased license). The Group also utilizes forward looking information such as product roadmaps and other marketing materials in identifying performance obligations

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

for IPs or version extensions of architecture IP under development or future products, and in determining if implicit promises or material rights exist in certain long-term contracts.

– *Determination of Transaction Price*

The Group applies judgment 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 judgment, historical trends are considered with respect to both the specific customer and broader Group trends. The Group estimates the transaction price based on the amount expected to be received for transferring the promised goods or services in the contract. Consideration payable to a customer is accounted for as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group. The transaction price also excludes amounts collected on behalf of third parties such as sales taxes. The Group's revenue arrangements generally do not include variable consideration other than royalties. Where minimum royalties are agreed with customers and there is no uncertainty of their receipt, the amount is allocated to performance obligations as a part of the transaction price.

The Group considers relevant facts and circumstances in assessing whether a contract contains a significant financing component. The Group has not identified significant financing components in its material revenue arrangements executed during the financial year.

– *Allocation of Transaction Price*

Judgment is required when estimating standalone selling prices ("SSPs"). There is also judgment involved in

determining whether the pricing of certain performance obligations is highly variable or uncertain. Other than support and maintenance, SSPs are usually not directly observable for the Group's products and services because the Group generally does not sell its products or services on a standalone basis. The Group estimates the SSPs so that the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Group allocates royalties entirely to the licenses that give rise to them. When estimating a SSP, the Group considers available information and maximizes the use of observable inputs such as renewal pricing history for the Group's standardized support and professional service offerings.

For offerings that have highly variable or uncertain 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. This is on the basis that the Group has identified SSP for other performance obligations in the same arrangement. If two or more goods or services in a contract have highly variable or uncertain pricing, then the Group applies a combination of methods to allocate transaction price, including utilizing list prices, contract prices, and effort estimates of future IPs, for initial allocation of residual amount of transaction price within such products. For customer agreements related to long-term licensing 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 the IP as well as related future versions, including enhancements and upgrades.

The SSPs of material rights depends on the probability of option exercise. In estimating these probabilities, judgement is utilized when considering historical exercise patterns. The SSPs are reviewed periodically or whenever facts and circumstances significantly change. These changes are applied prospectively.

Revenue from Arm China

Arm Technology (China) Co. Limited ("Arm China") acts as the Group's exclusive IP distributor in the People's Republic of China, which, for the purposes of these financial statements, includes the Hong Kong Special Administrative Region and the Macau Special Administrative Region, but excludes Taiwan (collectively referred to as the "PRC"), market under the intellectual property licensing arrangement ("IPLA"). As part of the IPLA arrangement, Arm China directly contracts with end customers with discretion in establishing pricing to sublicense specified IP. The Group's responsibility under the IPLA is to facilitate delivery of a good or service to the end customer in accordance with detailed instructions and other specifications from Arm China. In these

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023**

cases, Arm China is the customer for the Group. As such, revenue presented by the Group is the net amount calculated as a percentage of license and royalty fees earned by Arm China from sub-license arrangements entered into with end customers. The Group applies the royalty exception, under which revenue is recognized when the subsequent sale or usage occurs, assuming control of the license to which the royalty relates has transferred to the customer. Where the revenue is derived as a percentage of the license fee of Arm China, the Group categorizes that portion as license revenue while the other portion, which represents the Group's share of Arm China's royalties, is categorized as royalties.

Contract Balances and Receivables

The Group recognizes accounts receivable in full when it has the contractual right to invoice the customer and begins satisfying the performance obligations over the term of the contract. Judgment is required to determine whether a right to consideration is unconditional and thus qualifies as a receivable. Contract assets are recognized as the performance obligations are satisfied, and the Group does not have the contractual right to invoice. Accrued royalties are presented as accrued income in accounts receivable net on the consolidated balance sheet.

Contract liabilities primarily reflect invoices due, or payments received in advance of revenue recognition. Typically, the Group invoices either all or a substantial portion of the fees for IP licenses upfront on the effective date of the contract. Periodic fixed fees for software support services, and other multi-period agreements, are typically invoiced in advance.

Customer deposits primarily relate to payments received from customers which could be refundable pursuant to the terms of the contract and are in other current liabilities on the Consolidated Balance Sheet.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Group has determined that its contracts generally do not include a significant financing component. The primary purpose of the Group's invoicing terms is to provide customers with simplified and predictable ways of purchasing products and services, such as invoicing at the beginning of a license term with revenue recognized ratably over the contract period, and not to receive financing from customers. Any potential financing fees are considered insignificant in the context of the Group's contracts.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Share-based payments

By analogy to the criteria for recognition of a liability under IAS 37, share-based payments are classified as either cash-settled or equity-settled in their entirety depending on which outcome is probable at each reporting date. Any change in the probable method of settlement is treated as a change in accounting estimate, with the cumulative expense 'true-up' to reflect the appropriate charge for the method of settlement now considered probable.

(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 discounted cash flow approach or 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 levels of attrition. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. Where the Group has share-based payments schemes where the settlement under different scenarios may be settled in either equity or cash, the Group evaluates the most likely vesting scenario at the end of each reporting period and applies the relevant accounting policy.

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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Leases

(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 and small items of office furniture). 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.

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.

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.

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.

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.

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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Leases (continued)

(a) The Group as a lessee (continued)

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.

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.

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 SSP of the lease component and the aggregate SSP 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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Leases (continued)

(b) The Group as a lessor (continued)

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets held for sale/distribution and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale/ held-for-distribution if it is highly probable that they will be recovered primarily through sale or distribution (i.e. dividend in specie) rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale/distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale/distribution and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The profit or loss from a discontinued operation is shown as a single amount on the face of the income statement and the comparatives and related notes restated accordingly. This represents total post-tax profit of the disposal group for the whole of the financial year including any post-tax gain or loss on the measurement of fair value less costs to sell, as well as the post-tax loss on sale of the disposal group. Assets and liabilities classified as held for sale are shown as a separate line on the balance sheet.

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 United States dollars, 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****Significant accounting policies (continued)****Foreign currencies (continued)**

(c) Group Companies. The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary 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 average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.
- iii) All resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity in translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

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.

Operating profit

The Group's operating profit is stated before recognising the share of results of associates, finance income, finance costs, loss/gain on disposal of subsidiary/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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

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 tax 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 reassessed 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.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

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 losses. 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	25 years
Leasehold improvements	5 - 10 years or over the remaining term of the lease, whichever is shorter
Machinery and equipment	3 - 5 years
Fixtures, fittings and motor vehicles	3 - 5 years

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 construction or are yet to be brought into their intended use or condition are not depreciated.

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 scrapping 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 computer 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).

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.

Arm Limited

Notes to the Consolidated Financial Statements (continued) For the year ended 31 March 2023

Significant accounting policies (continued)

Intangible assets acquired in a business combination (continued)

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 – 8 years
Customer relationships	1 – 6 years
Trade names	4 years
In-process research and development	1 - 5 years

In accordance with IFRS, intangible assets under construction are not amortised until deemed available for use.

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 CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

Significant accounting policies (continued)

Research and development expenditure

All ongoing research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, future economic benefits are probable, 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 derecognised 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.

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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****Significant accounting policies (continued)****Financial instruments (continued)****(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 that 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 that give rise to contractual cash flows which are solely principal and interest and which are held in a business model that 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****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 that give rise to contractual cash flows which are solely principal and interest and are held in a business model that 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 (that is 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 FVTPL, 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Arm management regards financial guarantees as insurance contracts and elects to apply IFRS 4 on a contract-by-contract basis. The election is considered irrevocable once made. The Group apply measurement for guarantees of debt obligations of a related party by applying an IAS 37 recognition model to record a liability when probable and estimable.

Cash flow hedges

The Group designates foreign exchange forward contracts as cash flow hedges, where these hedge the Group's exposure to variability in cash flows arising from highly probable forecast transactions.

Gains and losses arising from changes in the fair value of foreign exchange forwards designated as cash flow hedges are recognised in other comprehensive income and deferred in the hedging reserve to the extent that the hedges are determined to be effective. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss. The Group designates the full change in the fair value of the forward contract as the hedging instrument.

Where the hedged forecast transaction relates to a non-financial asset or liability, the gains and losses previously recognised in other comprehensive income and accumulated in the cash flow hedge reserve are transferred from the hedging reserve and included in the initial carrying amount of that item. Otherwise they are reclassified to profit or loss in the same period when the hedged transaction item affects profit or loss.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

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 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****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**Probability of events triggering financial guarantee**

As disclosed in note 3 (Going concern) the Group has a guarantee obligation which exposes Arm to credit risk. Management have applied judgement to estimate that the probability of events triggering the guarantee and resulting in an economic outflow to the Company is remote. This assumption is factored into the Group's assessment of the financial guarantee contract under IFRS 4 (see policy, note 3).

SoftBank as the owner of the immediate parent company may avoid default by restructuring the facility agreement, or otherwise monetizing the collateral for the necessary liquidity to meet payment obligations under the facility agreement. The Company believes that the likelihood of assuming the debt obligation under the guarantee is remote due to the immediate parent company's significant collateralization of the obligations under the facility agreement and that SoftBank will avoid default by the parent company for which the obligations would become enforceable against the Company.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

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

Key sources of estimation uncertainty

Valuation of investments in early-stage unquoted companies

The Group classifies all of its equity investments which are not subsidiaries or associates as financial assets at fair value through OCI. These investments are initially recognised at fair value and subsequently carried at fair value. For investments in early-stage unquoted companies, where there is often less financial and forecast information available and no positive cashflows, Arm considers that fair value based on observable market inputs in the form of the most recent investment event by Arm or a third party is the best estimate of fair value. Judgement is applied to determine the continued relevance of historic investment events by considering the specific circumstances of each investment, the time period that has passed since the last investment event, sale and liquidity rights of shares held and external environmental factors such as market movements that could indicate it is no longer materially accurate to rely on the last observable transaction for current fair value measurement.

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 \$218.5 million (2022: \$223.7 million) (note 24) 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****5 Revenue**

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

	Note	2023	2022
		\$ 000	\$ 000
Licence and other revenue		1,003,982	1,140,737
Royalty revenue		1,675,223	1,562,787
Total revenue		<u>2,679,205</u>	<u>2,703,524</u>
Finance income	9	<u>44,442</u>	<u>5,318</u>
		<u>2,723,647</u>	<u>2,708,842</u>

Geographical information

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

	2023	2022
	\$ 000	\$ 000
United States of America	1,088,138	1,242,677
PRC	657,397	476,219
Taiwan	359,308	431,147
Republic of Korea	240,445	226,301
Other countries	333,917	327,180
Total Revenue	<u>2,679,205</u>	<u>2,703,524</u>

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 timing of recognition of revenue will depend on a number of factors, including when customers choose to receive products and services. Accordingly, the analysis between time bands below has been estimated, but the final timing may differ from these estimates.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****5 Revenue (continued)**

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:

	2023	2022
	\$ 000	\$ 000
Within 1 year	396,041	340,842
Between 1 and 2 years	186,246	205,916
More than 2 years	1,129,794	1,204,456
	<u>1,712,081</u>	<u>1,751,214</u>

In the absence of sufficient information, where the timing of satisfaction of the remaining performance obligations is dependent on a customer's action, the transaction price allocated to such performance obligation is included in the more than 2 years category unless contract or option expiration aligns with an earlier period or category.

As of 31 March 2023, the aggregate transaction price allocated to remaining performance obligations was \$1,712.1 million, which includes \$743.9 million of non-cancellable and non-refundable committed funds received from certain customers, where the parties are in negotiations regarding the enforceable rights and obligations of the arrangement.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****6 Profit for the year**

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

	Note	2023	2022
		\$ 000	\$ 000
Net foreign exchange losses/(gains)		2,486	(6,967)
Research and development costs		1,209,110	933,677
Depreciation of property, plant and equipment	16	73,632	77,846
Depreciation of right-of-use assets	17	32,180	38,702
Loss on disposal of property, plant and equipment		3,307	1,155
Amortisation of intangible assets	15	92,659	101,633
Reclassification of OCI on disposal of associate		—	(32,415)
Cost of inventories recognised as (gain)/expense		(185)	4,277
Government grants – research and development expenditure credit		(83,005)	(84,333)
(Reversal of)/additional trade receivables specific provision		(21,671)	21,671
(Reversal of)/additional expected credit loss recognised on trade receivables		(12,293)	6,114
Restructuring		1,478	25,770
Loss on disposal of subsidiary	12	—	375
Gain on disposal of trade and net assets	35	(3,699)	—
Share based payment charge/(credit)	8	437,339	(46,152)
Impairment of investments and other assets		(3,090)	(35,653)
Impairment loss on right-of-use assets		—	2,078
Impairment loss recognised on property, plant and equipment		—	13,597
Impairment loss recognised on other intangible assets		—	19,977
Impairment credit recognised on other receivables		(5,112)	(14,143)
Impairment loss recognised on other intangible assets (recognised in discontinued operations)		—	21,751
Impairment loss on goodwill (recognised in discontinued operations)		—	4,783

Figures presented above are inclusive of continuing and discontinued operations.

During the prior year, the Group received a grant from Innovate UK for works connected to the creation of a new centrally secured technology platform prototype. The credit to the income statement in the year in respect of this grant amounted to \$2.6 million (2022: \$15.3 million). The maximum total value of this contract is \$42.7 million.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****7 Auditor's remuneration**

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

	2023	2022
	\$ 000	\$ 000
Fees payable to the Company's auditor and their associates for the audit of the Company's and the Group's annual accounts	3,440	2,864
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	250	326
Other audit related	7,070	—
Total audit fees	<u>10,760</u>	<u>3,190</u>
Audited related assurance	790	342
Other services	10	61
	<u>11,560</u>	<u>3,593</u>

Other audit related includes fees payable to the Company's auditor and their associates for the audit of the Company's and the Group's US GAAP financial statements for three years ending 31 March 2021, 2022, and 2023.

Other services relate to tax services for a controlled undertaking incorporated based in a third country for which reporting required by law or regulation in that jurisdiction is permitted to be undertaken by the auditor of that engagement.

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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****8 Staff costs**

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

	2023	2022
Engineering	4,628	4,810
Non-engineering	1,273	1,618
Total	<u>5,901</u>	<u>6,428</u>

Their aggregate remuneration comprised:

	Note	2023	2022
		\$ 000	\$ 000
Wages and salaries		873,271	1,183,484
Social security costs		133,641	128,577
Other pension costs	31	78,048	77,015
		<u>1,084,960</u>	<u>1,389,076</u>
Equity-settled Share-based payments	30	179,882	(37,392)
Cash-settled Share-based payments	30	257,457	(8,760)
Total employee benefit expense		<u>1,522,299</u>	<u>1,342,924</u>

Share-based payment expense has increased during the current year, principally due to the introduction of new share-based payment schemes. See note 30 for further details.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****9 Finance income**

	Note	2023	2022
		\$ 000	\$ 000
Interest income from deposits and cash and cash equivalents		41,728	2,636
Interest received from equity investments designated as at FVTOCI	20	—	110
Interest income from convertible loan receivable measured at FVTPL	33	1,899	—
Dividends received from equity investments designated as at FVTOCI	20	815	2,572
Total finance income		44,442	5,318

Interest income has increased in the year ended 31 March 2023 due to increased cash and deposits held and higher rates of interest.

10 Finance costs

	Note	2023	2022
		\$ 000	\$ 000
Interest on lease liabilities	17	5,673	7,629
Unwinding of discounts on provisions	26	182	250
Other finance costs/(income)		1,762	(587)
Total finance costs		7,617	7,292

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****11 Tax**

	2023	2022
	\$ 000	\$ 000
Analysis of charge to profit or loss in the year:		
Current tax:		
Current tax on profits for the year	182,027	231,704
Adjustments in respect of prior years	(1,077)	(14,065)
Total current tax	<u>180,950</u>	<u>217,639</u>
Deferred tax:		
Origination and reversal of temporary differences	(37,009)	28,738
Adjustment in respect of prior years	(5,951)	(6,609)
Total deferred tax	<u>(42,960)</u>	<u>22,129</u>
Income tax expense	<u>137,990</u>	<u>239,768</u>
Income tax expense reported in the statement of profit and loss	137,990	208,838
Income tax expense attributable to discontinued operations	—	30,930
	<u>137,990</u>	<u>239,768</u>
Tax charged (credited) directly to equity		
Deferred tax credit on outstanding share options and awards	(13,800)	
Total tax charged (credited) directly to equity	<u>(13,800)</u>	<u>—</u>
Tax charged (credited) directly to other comprehensive income		
Deferred tax charge on cash flow hedges	2,547	—
Fair value gain on investments in equity instruments designated as at FVTOCI	(6,694)	34,506
	<u>(4,147)</u>	<u>34,506</u>

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****11 Tax (continued)**

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

	2023	2022
	\$ 000	\$ 000
Profit before tax from continuing operations	591,355	805,103
Loss before tax from discontinued operations	—	(94,395)
Profit before tax	591,355	710,708
Profit before tax at the corporation tax rate of 19% (2022: 19%)	112,357	135,035
Effects of:		
Adjustments in respect of prior years	(7,028)	(20,674)
Adjustments in respect of foreign tax rates	(63)	7,917
Research and development tax credits	(29,695)	(16,201)
Current impact of UK patent box regime	(21,677)	(69,883)
Deferred tax assets not recognised	(4,235)	(8,283)
Foreign withholding tax	79,204	51,364
Gain on disposal of shares in Arm China	—	94,421
US tax on disposal of Treasure Data and IoT	—	33,001
Impact of UK rate change to 25% ¹	—	37,464
Provision for adjustments in respect of transfer pricing	6,755	6,427
Other ²	2,372	(10,820)
Total taxation	137,990	239,768

¹ Relates to the impact of 25% UK rate increase from 1 April 2023 on UK deferred balances

² Includes expenditure permanently disallowable for tax purposes and additional tax payable on income

In 2021, the UK Government enacted legislation to increase the main rate of UK statutory Corporation Tax to 25% from 1 April 2023. The actual effective UK tax rate of the Company is reduced from the main rate due to the application of the UK patent box regime. Finance (No. 2) Act 2023 was enacted following the balance sheet date and includes legislation introducing a new 15% global minimum corporate income tax rate, to have effect from 2024 in line with the OECD's Pillar Two model framework. The legislation is complex and the Company is currently working through any potential impact. The Company is not in a position to accurately quantify the impact of the legislation at this stage.

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

Uncertain tax positions

As a complex international business, the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross border transfer pricing and other international tax matters.

Uncertain tax positions are assessed and measured either using management's estimate of the most likely outcome where the issues are binary, or the expected value approach where the issues have a range of possible outcomes. This assessment requires a degree of management judgement which is based on current interpretation of legislation, management experience and professional advice.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

11 Tax (continued)

Uncertain tax positions (continued)

Within the consolidated balance sheet at 31 March 2023 are current tax liabilities of \$171.6m (31 March 2022: \$171.1m), which include a provision of \$38.3m (31 March 2022: \$40.5m) relating to uncertain tax positions. Included within this provision is \$14.2m (31 March 2022: \$15.8m) relating to interest and penalties on uncertain tax positions. Until the tax audits are finally concluded with the relevant tax authorities it is possible that amounts ultimately paid will be different from the amounts provided. The Group estimates the range of reasonably possible outcomes relating to uncertain tax positions to be from \$13.0m to \$47.1m.

Whilst there is inherent uncertainty regarding the settlement of the uncertain tax positions pending finalisation of the various enquiries and tax audits, the Group does not expect there to be a material change in the provision for uncertain tax positions in the next 12 months.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

12 Disposal of subsidiaries and discontinued operations

Year ended 31 March 2023:

The following subsidiaries were voluntarily liquidated during the year ended 31 March 2023:

- WigWag Networks India Private Limited,
- UK1937 Limited, and
- Allinea Software GmbH.

Year ended 31 March 2022:

Following a strategic decision in the year ended 31 March 2021 to place greater focus on the Group's core IP licensing business, a decision was taken to dispose, through distribution and sale, the Treasure Data Group and IoT business to the Company's immediate shareholders. In line with this change in strategic priority the Group disposed of its 100% subsidiary, SeeChange Technologies Limited to a third party. These disposals took place in the year ended 31 March 2022. Further disclosures are available in the prior period financial statements.

Treasure Data Group

On 25 June 2021, the Group distributed a controlling stake in its 100% subsidiary Treasure Data, Inc. and its subsidiaries ('Treasure Data'). The distribution was made through a dividend in specie (note 13) to another subsidiary of SoftBank Group Corp.

Treasure Data consists of the following entities that are no longer subsidiaries of Arm Limited:

Treasure Data (UK) Limited, Treasure Data (Canada) Inc, Treasure Data (France) SAS, Treasure Data (Korea) Limited, Treasure Data KK, Treasure Data (India) Private Limited, Treasure Data Inc., Treasure Data GmbH.

See prior year financial statements for further details.

Treasure Data was previously classified as held-for-distribution and as discontinued operations. The results for Treasure Data for the period until distribution (25 June 2021) are presented as part of discontinued operations separately from continuing operations. During the year ended 31 March 2022, the Group incurred a tax expense of \$32.2 million in relation to the distribution in specie of Treasure Data on 25 June 2021. This tax expense was included within discontinued operations.

SeeChange Technologies Limited

On 30 September 2021, the Group disposed of a controlling stake in its 100% subsidiary SeeChange Technologies Limited ('SeeChange') for consideration of \$87k to a third party. The results of SeeChange in the prior period are not material to the Group and are included within continuing operations.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****12 Disposal of subsidiaries and discontinued operations (continued)****Internet of Things Platform (IoTTP)**

On 30 November 2021, the Group sold 100% of its ownership in Pelion IOT Limited and its subsidiaries for consideration of \$12.0 million to another subsidiary of SoftBank Group Corp.

The IoTTP Group consists of the following entities that are no longer subsidiaries of Arm Limited:

Pelion IoT Limited, Pelion Inc., Pelion Technology Inc., Pelion (Finland) OY, Pelion (India) Private Limited, IoT Pelion (Israel) Limited, Pelion (Japan) KK, Stream Technologies LLC, Kigen (UK) Limited, Kigen Denmark ApS, Kigen (France) SAS, Kigen (India) Private Limited, Kigen KK, Kigen South Africa Proprietary Limited, Kigen LLC, Kigen (UK) Limited – Ireland Branch, Kigen (UK) Limited – Singapore Branch.

During the period to disposal on 30 November 2021, capital contributions of \$63.7 million were received by IoTTP from a subsidiary company of Arm Limited.

At 31 March 2023, consideration of \$12.0 million in respect of this sale is recorded within current other receivables (2022: \$12.0 million).

IoTTP was previously classified as held-for-distribution and as discontinued operations. During August 2021, it was determined that the IoTTP business would be sold to the Company's immediate shareholders rather than distributed, therefore assets held in relation to IoTTP were reclassified from Assets held for distribution to Assets held for sale. An impairment loss of \$26.5 million was recognised during the year ended 31 March 2022 on classification as held for sale. This impairment was included within discontinued operations during the year ended 31 March 2022. The results for the IoTTP Group for the period until sale (30 November 2021) are presented as part of discontinued operations separately from continuing operations.

Intra-group transactions have been fully eliminated in the results shown below:

Total discontinued operations in the prior period inclusive of Treasure Data and IoTTP

	2022
	\$ 000
Revenue	41,055
Expenses	(135,450)
Loss before tax	(94,395)
Attributable tax expense	(30,930)
Net loss attributable to discontinued operations	(125,325)

Cash Flow Statement

	2022
	\$ 000
Net cash flows used in operating activities	(108,993)
Net cash flows used in investing activities	(821)
Net cash flows from financing activities	110,220
	406

During the year ended 31 March 2023 there were no activities classified as discontinued operations.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****13 Dividends**

No dividends were declared or paid in the year ended 31 March 2023.

On 25 June 2021, the Group distributed in specie its shareholding in the Treasure Data Group (note 12) to a subsidiary of SoftBank Group Corp., which represented a dividend of \$47.9 million.

On 28 March 2022, the Group distributed in specie its investment in Arm Technology (China) Co. Ltd (note 19) to the owners of the Company, which represented a dividend in specie of \$780.7 million.

14 Goodwill

	\$ 000
Cost	
At 1 April 2021	1,636,742
Exchange differences	(14,062)
At 31 March 2022	<u>1,622,680</u>
Exchange differences	(16,936)
At 31 March 2023	<u>1,605,744</u>
Accumulated impairment losses	
At 1 April 2021	—
At 31 March 2022	—
At 31 March 2023	—
Carrying amount	
At 31 March 2023	<u>1,605,744</u>
At 31 March 2022	<u>1,622,680</u>
At 1 April 2021	<u>1,636,742</u>

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****14 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:

Arm

The recoverable amount of the Arm CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a three-year period and a post-tax discount rate of 10% per annum. For years four to five in the forecast and as a terminal growth rate, an assumed year on year growth rate in revenue of 2.5% has been applied and other valuation assumptions remain the same. Given the long-term nature of the Arm licensing and royalty business model, it is considered appropriate to use the above method to assess the expected future cash flows to be generated from the assets under review.

The key assumptions used by management in setting the financial budgets for the initial three-year period were as follows:

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.

Operating margins

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

Conclusion

The directors are confident that the amount of goodwill is not impaired 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 revenue growth rates, 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****15 Other intangible assets**

	Patents and licences \$ 000	Developed technology \$ 000	Customer relationships \$ 000
Cost			
At 1 April 2021	170,467	142,729	14,584
Additions	7,500	—	—
Exchange differences	—	(5,320)	—
Reclassification ₁	—	7,598	(7,598)
Reclassified from assets held for distribution ₂	—	20,109	—
At 31 March 2022	177,967	165,116	6,986
Additions	—	—	—
Exchange differences	—	(7,060)	—
Disposals	—	(3,724)	(4,965)
At 31 March 2023	177,967	154,332	2,021
Amortisation and impairment			
At 1 April 2021	144,546	110,623	6,881
Charge for the year	12,286	12,413	848
Exchange differences	—	(664)	—
Impairment charge	—	19,977	—
Reclassification ₁	—	1,306	(1,306)
Reclassified from assets held for distribution	—	12,289	—
At 31 March 2022	156,832	155,944	6,423
Charge for the year	11,838	3,991	563
Exchange differences	—	(6,409)	—
Disposals	—	(3,724)	(4,965)
At 31 March 2023	168,670	149,802	2,021
Carrying amount			
At 31 March 2023	9,297	4,530	—
At 31 March 2022	21,135	9,172	563
At 1 April 2021	25,921	32,106	7,703
Average remaining useful life	0.9 years	1.1 years	—

¹ Relates to customer relationships that were classified as developed technology within assets held for distribution at 31 March 2021. These assets comprised part of IoT's other intangible assets balance as at the date of distribution (see note 12).

² Relates to reclassification of developed technology that had been included as part of assets held for distribution at 31 March 2021, but was subsequently confirmed to remain with the Group as part of continuing operations.

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

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****15 Other intangible assets (continued)**

	Computer software	Intangible assets under construction	In-process research and development	Total
	\$ 000	\$ 000	\$ 000	\$ 000
Cost				
At 1 April 2021	230,372	20,139	34,128	612,419
Additions	66,568	22,543	—	96,611
Transfers	11,102	(11,102)	—	—
Disposals	(64,656)	(1,195)	—	(65,851)
Exchange differences	—	—	—	(5,320)
Reclassified to assets held for distribution	—	—	—	20,109
At 31 March 2022	243,386	30,385	34,128	657,968
Additions	21,983	5,407	—	27,390
Transfers	35,579	(35,579)	—	—
Disposals	(46,599)	—	—	(55,288)
Exchange differences	45	—	—	(7,015)
At 31 March 2023	254,394	213	34,128	623,055
Amortisation and impairment				
At 1 April 2021	82,072	—	34,128	378,250
Charge for the year	76,086	—	—	101,633
Disposals	(60,333)	—	—	(60,333)
Exchange differences	2,050	—	—	1,386
Impairment charge	—	—	—	19,977
Reclassified to assets held for distribution	—	—	—	12,289
At 31 March 2022	99,875	—	34,128	453,202
Charge for the year	76,267	—	—	92,659
Disposals	(46,064)	—	—	(46,064)
Exchange differences	(65)	—	—	(6,472)
Reclassification	—	—	—	(8,689)
At 31 March 2023	130,013	—	34,128	484,636
Carrying amount				
At 31 March 2023	124,381	213	—	138,419
At 31 March 2022	143,511	30,385	—	204,766
At 31 March 2021	148,300	20,139	—	234,169
Average remaining useful life	1.9 years	—	—	

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****16 Property, plant and equipment**

	Leasehold improve- ments \$ 000	Machinery and Equipment \$ 000	Fixtures, fittings and motor vehicles \$ 000	Assets under construction \$ 000	Total \$ 000
Cost					
At 1 April 2021	166,573	246,189	42,893	2,892	458,547
Additions	383	26,356	3,817	3,798	34,354
Transfers	6,333	447	97	(6,502)	375
Disposals	(5,432)	(18,849)	(310)	(43)	(24,634)
Exchange differences	5,255	3	5,884	—	11,142
At 31 March 2022	173,112	254,146	52,381	145	479,784
Additions	944	71,666	1,342	356	74,308
Transfers	139	258	(95)	(302)	—
Disposals	(18,677)	(19,075)	(2,207)	—	(39,959)
Exchange differences	(1,888)	(1,983)	1,496	30	(2,345)
At 31 March 2023	153,630	305,012	52,917	229	511,788
Depreciation					
At 1 April 2021	47,888	144,562	20,573	—	213,023
Charge for the year	23,368	48,632	5,846	—	77,846
Transfers	—	311	64	—	375
Disposals	(34)	(16,342)	—	—	(16,376)
Exchange differences	1,657	(1,024)	9,640	—	10,273
Impairment charge	13,597	—	—	—	13,597
At 31 March 2022	86,476	176,139	36,123	—	298,738
Charge for the year	18,355	48,607	6,670	—	73,632
Transfers	—	57	(57)	—	—
Disposals	(15,134)	(18,816)	(2,158)	—	(36,108)
Impairment charge	—	—	—	—	—
Exchange differences	(1,536)	(1,289)	1,613	—	(1,212)
At 31 March 2023	88,161	204,698	42,191	—	335,050
Carrying amount					
At 31 March 2023	65,469	100,314	10,726	229	176,738
At 31 March 2022	86,636	78,007	16,258	145	181,046
At 31 March 2021	118,685	101,627	22,320	2,892	245,524

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****17 Leases****(a) Right-of-use assets**

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

	Property	Vehicles	IT equipment	Total
	\$ 000	\$ 000	\$ 000	\$ 000
At 1 April 2022	202,586	210	27,453	230,249
Additions ¹	14,962	—	1,485	16,447
Depreciation charge for the year	(21,499)	(105)	(10,576)	(32,180)
Other movements ²	(9,456)	(33)	—	(9,489)
Exchange differences	(801)	(16)	—	(817)
At 31 March 2023	185,792	56	18,362	204,210

1 Additions comprise increases to right-of-use assets as a result of entering into new leases and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.

2 Other movements relate to terminated leases and downwards remeasurements of right-of-use assets arising from reduction or reassessments of lease terms and decreases in lease payments.

The Group leases several assets including property, vehicles and IT equipment. Rental contracts are typically made for a fixed period of 2 to 25 years (2022: 2 to 25 years). In respect of the UK property portfolio there is commonly a right to negotiate replacement leases on expiry, by virtue of the Landlord and Tenant Act 1954.

(b) Lease liabilities

The carrying amount of lease liabilities at 31 March 2023 is set out below:

	Property	Vehicles	IT equipment	Total
	\$ 000	\$ 000	\$ 000	\$ 000
Current	18,461	43	8,324	26,828
Non-current	177,962	2	10,212	188,176
	196,423	45	18,536	215,004

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****17 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 2023 and the contractual maturity date. Note 29 lists cash flows for the Year End ended 31 March 2023 and Year ended 31 March 2022.

	Within 1 year \$ 000	Between 1 and 5 years \$ 000	Over 5 years \$ 000	Total \$ 000
Property	23,924	71,589	148,515	244,028
Vehicles	43	2	—	45
IT equipment	8,624	10,410	—	19,034
	<u>32,591</u>	<u>82,001</u>	<u>148,515</u>	<u>263,107</u>

Certain lease payments are not recognised as a liability. This arises when the Group continues to pay rents and occupy properties after the lease has expired. Payments made under such leases are expensed on a straight-line basis.

Amounts paid for short-term and low value leases not included within the lease liability are immaterial.

(c) Impact on the consolidated income statement

	2023 \$ 000	2022 \$ 000
Depreciation charge of right-of-use assets		
Property	21,499	27,509
Vehicles	105	204
IT equipment	10,576	10,989
	<u>32,180</u>	<u>38,702</u>
 Interest expense	 5,673	 7,629
Revenue from sublease	1,993	1,575

18 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 41 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****19 Associates**

	Arm China	Acetone Limited	Other	Total
	\$ 000	\$ 000	\$ 000	\$ 000
At 1 April 2021	825,669	—	13,378	839,047
Investments:				
– financed by cash	—	—	100	100
– reclassification	(86,742)	86,742	—	—
Share of results for the year	14,295	—	(870)	13,425
Share of OCI for the year	(4,349)	—	—	(4,349)
Fair valuation gain on associate held at fair value	—	—	14,574	14,574
Foreign exchange	31,806	—	5	31,811
Distribution in specie of associate	(780,679)	—	—	(780,679)
At 31 March 2022	—	86,742	27,187	113,929
Investments:				
– financed by cash	—	—	1,650	1,650
– conversion of loan receivable to preferred shares	—	—	5,112	5,112
Share of results for the year	—	(1,690)	2,832	1,142
Share of OCI for the year	—	(545)	—	(545)
Fair valuation loss on associates held at fair value	—	—	(1,808)	(1,808)
Impairment of investment in associate	—	—	(3,600)	(3,600)
At 31 March 2023	—	84,507	31,373	115,880

Reclassification in the year ended 31 March 2022 relates to the Group's investment in Acetone Limited. Additional details on this transaction are included subsequently in this note.

	2023	2022
	\$ 000	\$ 000
Equity investments in associates	115,880	113,929
Loans to associates	—	3,028
Total	115,880	116,957

Share of results of associates

The Group recognises its share of results first against the equity investment, then, if there are additional share of results to record, against any loans to associates. The share of results was recorded as follows:

	2023	2022
	\$ 000	\$ 000
Equity investments in associates	1,142	13,425
Total share of results for the year	1,142	13,425

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****19 Associates (continued)**

Details of the Group's associates at 31 March 2023 are as follows:

Name	Place of business and registered office address	Principal activity	Holding	Proportion of ownership interest	Proportion of voting power held
				%	%
Accelerator Advisory Limited ¹	Mills & Reeve LLP, Botanic House, 100 Hills Road, Cambridge, CB2 1PH, United Kingdom	Technology accelerator	Ordinary shares	27.9	27.9
Acetone Limited	PO Box 500, Grand Cayman, KY1-1106, Cayman Islands	Holding Company of Arm China	Ordinary shares ²	10.0	-
Arduino SA	Via Ferruccio Pelli, 6900 Lugano, Ticino, Switzerland	Computer programming activities	Preferred shares and loans ³	15.7	15.7
Arm IOT Fund LP (Taiwan) ¹	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	Investor in early-stage IoT ventures	Contributed capital ⁴	25.8	25.8
Cerfe Labs, Inc.	9401 Honeycomb Drive, Austin, Texas, 78737-1132, United States	Development of CeRam memory technology	Ordinary shares	30.0	30.0
Linaro Limited	Harston Mill, Harston, Cambridge, CB22 7GG, United Kingdom	Software engineering collaboration	None ⁵	25.0	25.0

¹ Investment owned indirectly by the Company.² The Group is considered to have significant influence over Acetone Limited.³ The Group is considered to have significant influence over the entity by way of a material loan to Arduino SA and by influence over the entity's board of directors. The investment in Arduino SA is held at fair value.⁴ 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.⁵ The Group is one of four Core Members of Linaro Limited; the Core Members jointly control the business.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****19 Associates (continued)**

The Group's material associates are accounted for using the equity method in these consolidated financial statements as set out in the accounting policies note 3.

Acetone Limited

As at 31 March 2023, the net assets of Acetone Limited were \$907.9 million (2022: \$930.3 million) (all of which relates to its investment in 48.2% of Arm China).

The summarised financial information detailed below illustrates Group's investment in Acetone Limited. The information below is based on Acetone Limited's financial statements prepared in accordance with IFRS.

	\$ 000
Non-current assets	907,916
Equity	907,916
Group's share in equity – 10%	<u>90,792</u>
Adjustment to fair value	<u>(6,280)</u>
Group's carrying amount of the investment	<u>84,512</u>

The summarised statement of comprehensive income of Acetone Limited for the year ended 31 March 2023 was as follows:

	\$ 000
Loss for the year (continuing operations)	(16,905)
Other comprehensive expense	<u>(5,450)</u>
Total comprehensive expense for the year (continuing operations)	<u>(22,355)</u>
Group's share of total comprehensive expense for the year – 10%	<u>(2,235)</u>

Arm Technology (China) Co. Limited

On 28 March 2022, the Group sold its shareholding of 48.2% in Arm Technology (China) Co. Limited ('Arm China') to Acetone Limited, another subsidiary of SoftBank Group Corp. for consideration of \$930.3 million. The consideration was exchanged for a promissory note equal to 90% of the consideration and non-voting shares in the subsidiary equal to the remaining 10% of the consideration. Arm indirectly holds 4.8% in Arm China through its interest in Acetone Limited.

The summarised financial information detailed below is based on Arm China's financial statements prepared in accordance with IFRS, up to the point that the investment was distributed on 28 March 2022.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****19 Associates (continued)****Arm Technology (China) Co. Limited (continued)**

	28 Mar 2022
	\$ 000
Non-current assets	445,199
Cash and cash equivalents	292,029
Other current assets	496,818
Current assets	788,847
Total assets	1,234,046
Current liabilities	704,611
Non-current liabilities	298,545
Total liabilities	1,003,156
Net assets	230,890

The carrying value of assets of Arm China at date of distribution were as follows:

	Carrying value \$ 000	Group's ownership interest	Share of carrying value \$ 000
Group's share in equity	230,890	48.20 %	111,245
Group's share of unrecognised intangible assets	1,315,213	48.20 %	633,683
Goodwill	254,136	48.20 %	122,493
Carrying value of the Group's interest in the associate	1,800,239		867,421

The Group's share of unrecognised intangible assets related to the fair value of intangible assets measured in accordance with IFRS 3 'Business Combinations' that were measured at the date (June 2018) Arm Technology (China) Co. Limited ceased being a subsidiary and are not recognised in the IFRS financial statements of Arm Technology (China) Co. Limited. The Group recognised its share of amortisation in respect of these intangible assets in the share of results of associates within the income statement. As at the distribution date the remaining useful life of these intangible assets was 36 years.

\$780.7 million was distributed in specie to the parent company on disposal of the Arm China associate. This represents 90% of the \$867.4m carrying value of the Group's interest in Arm China prior to the distribution in specie taking place. The remaining 10% of the carrying value of Arm China (\$86.7 million) was reclassified and presented as an associate investment in Acetone Limited - see table at beginning of this note.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****19 Associates (continued)**

The summarised statement of comprehensive income of Arm China for the period to 28 March 2022 was as follows:

	Period to 28 Mar 2022
	\$ 000
Revenue	697,106
Profit for the period (continuing operations)	55,854
Other comprehensive income	(6,543)
Total comprehensive income for the period (continuing operations)	49,311
Amortisation on unrecognised intangible assets	28,667
Group's share of total comprehensive income for the period - 48.2%	9,946

The Group has reflected the share in Arm China's total comprehensive income based on unaudited financial data received from Arm China.

Following the Group's sale of Arm China on 28 March 2022, the Group did not recognise a direct share of profit in Arm China for the year ended 31 March 2023.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****20 Investments**

	2023	2022
	\$ 000	\$ 000
Investments in equity instruments designated as FVTOCI		
Unlisted shares	592,646	608,756
Loans receivable carried at amortised cost		
Loans to other entities	6,593	5,146
Total investments	<u>599,239</u>	<u>613,902</u>

Unlisted shares represent either direct or indirect, through a capital fund, investments in unlisted early-stage development enterprises that are generating value for shareholders through research and development activities.

Equity securities designated as FVTOCI

Ambiq Micro, Inc.
 Ampere Computing Holdings LLC
 Blu Wireless Technology Limited
 Cambridge Innovation Capital II LP
 Cambridge Innovation Capital Limited
 Catapult Ventures I, LP
 China Walden Ventures Investments II, L.P.
 China Walden Ventures Investments III, L.P.
 DeepTech Labs Fund 1 LP
 Easology Limited
 HOPU-ARM Innovation Fund GP Limited
 HOPU-ARM Innovation Fund, L.P.
 PragmatIC Semiconductor Limited
 Shanghai Walden Venture Capital Enterprise
 SiPearl SAS
 Spin Memory, Inc.
 SWIM.AI, Inc.
 Triad Semiconductor, Inc.

During the year, the Group acquired \$23.4 million (€21.7 million) new Series A Preferred shares in SiPearl SAS through cash and conversion of existing trade receivable from SiPearl SAS.

The fair value of these investments varies with the type of investment held. Where external factors providing evidence for valuation are not available, direct investments are measured approximate to cost. 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 dividends received in respect of these investments are disclosed in note 9.

The total amount of financial commitments to existing investees of the Group not provided for in the financial statements was \$22.1 million (2022: \$25.0 million). Further information on the loans to associates is contained in note 35.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****21 Inventories**

	2023	2022
	\$ 000	\$ 000
Finished goods and work in progress	<u>1,813</u>	<u>1,998</u>

22 Contract assets

	2023	2022
	\$ 000	\$ 000
Contracts	270,019	266,936
Less: Loss allowance	<u>(636)</u>	<u>—</u>
Net contract assets	<u>269,383</u>	<u>266,936</u>
Current	153,649	166,480
Non-current	<u>115,734</u>	<u>100,456</u>
	<u>269,383</u>	<u>266,936</u>

During the year ended 31 March 2023 the loss allowance for contract assets increased by \$0.6 million (2022: \$nil).

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

	\$ 000
Balance at 1 April 2022	266,936
Performance obligations satisfied during the period	253,117
Transfers in the period from contract assets to trade receivables	<u>(250,669)</u>
Balance at 31 March 2023	<u>269,383</u>

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****23 Trade and other receivables**

	2023	2022
	\$ 000	\$ 000
Current assets		
Trade receivables	622,627	713,349
Less: Loss allowance	(2,936)	(39,663)
Net trade receivables	<u>619,691</u>	<u>673,686</u>
Other receivables	106,254	130,847
Prepayments	51,093	43,602
Accrued income	<u>377,127</u>	<u>431,254</u>
	<u>1,154,165</u>	<u>1,279,389</u>
Non-current assets		
Other receivables	139,090	134,287
Prepayments	<u>8,164</u>	<u>12,743</u>
	<u>147,254</u>	<u>147,030</u>
Current	1,154,165	1,279,389
Non-current	<u>147,254</u>	<u>147,030</u>
	<u>1,301,419</u>	<u>1,426,419</u>

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

\$56.2 million (2022: \$63.2 million) of non-current other receivables and \$9.0 million (2022: \$6.5 million) of current other receivables relate to payments made to a single customer, which are intended to be unwound as a consideration payable against future royalty revenue 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 33 includes details on the Group's approach to mitigating credit risk in relation to trade receivables and other counterparties.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****23 Trade and other receivables (continued)**

Movement in the loss allowance in respect of trade receivables:

	2023	2022
	\$ 000	\$ 000
Balance at 1 April	39,663	12,275
(Reversal of)/additional trade receivables specific provision	(21,671)	21,671
(Reversal of)/additional expected credit loss recognised on trade receivables	(12,293)	6,114
Amounts written off during the year as uncollectible	(2,763)	(397)
Balance at 31 March	<u>2,936</u>	<u>39,663</u>

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. Other than certain balances with Arm China (note 35), the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Ageing of impaired trade receivables:

	2023	2022
	\$ 000	\$ 000
Not yet past due	667	24,013
1-30 days	80	1,267
31-90 days	—	193
91-180 days	2,162	682
181-365 days	25	66
Over 1 year	2	13,442
	<u>2,936</u>	<u>39,663</u>

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

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****24 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:

	2023	2022
	\$ 000	\$ 000
At 1 April	(138,268)	(99,373)
Income statement credit/(charge)	42,960	(15,167)
Credit/(charge) to other comprehensive income	4,147	(34,506)
Credit to reserves	13,800	—
Transfers from current tax assets	3,376	10,707
Exchange differences	(712)	71
At 31 March	<u>(74,697)</u>	<u>(138,268)</u>

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.

	Temporary differences relating to fixed assets	Tax losses and R&D tax credits carried forward	Amounts relating to Share Based Payments	Temporary differences relating to liabilities	Total
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Deferred tax assets					
At 1 April 2021	5,930	68,429	19,652	83,554	177,565
Movement from current tax assets	—	11,090	—	(956)	10,134
Income statement (charge)/credit	10,621	21,483	(5,733)	(16,169)	10,202
Reclassification		21,543	—	(21,543)	—
Exchange differences	—		—	(266)	(266)
At 31 March 2022	<u>16,551</u>	<u>122,545</u>	<u>13,919</u>	<u>44,620</u>	<u>197,635</u>
Offsetting of deferred tax liabilities					(69,051)
At 31 March 2022 (after offsetting)					<u>128,584</u>
At 1 April 2022	16,551	122,545	13,919	44,620	197,635
Movement from current tax assets		3,376			3,376
Income statement credit/(charge)	7,936	13,628	38,881	(15,665)	44,780
Movement through reserves			13,800		13,800
Exchange differences				(776)	(776)
At 31 March 2023	<u>24,487</u>	<u>139,549</u>	<u>66,600</u>	<u>28,179</u>	<u>258,816</u>
Offsetting of deferred tax liabilities					(85,668)
At 31 March 2023 (after offsetting)					<u>173,148</u>

The deferred tax asset to be recovered after more than one year, prior to offsetting, is \$170.4 million (2022: \$163.1 million).

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****24 Deferred tax (continued)**

	Amounts relating to intangible assets arising on acquisition	Amounts relating to investments and subsidiaries	Contract Liabilities	Other	Total
Deferred tax liabilities	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
At 1 April 2021	6,956	72,016	197,966		276,938
Transfers from current tax assets	—	—	(573)		(573)
Income statement credit	(1,151)	—	26,520		25,369
Charge to other comprehensive income	—	34,506	—		34,506
Exchange differences	(337)	—	—		(337)
At 31 March 2022	5,468	106,522	223,913	—	335,903
Offsetting of deferred tax assets					(69,051)
At 31 March 2022 (after offsetting)					266,852
At 1 April 2022	5,468	106,522	223,913		335,903
Transfers from current tax assets					—
Income statement charge/(credit)	85	7,107	(5,370)		1,822
Charge/(credit) to other comprehensive income		(6,694)		2,547	(4,147)
Exchange differences	(65)	—	—		(65)
At 31 March 2023	5,488	106,935	218,543	2,547	333,513
Offsetting of deferred tax assets					(85,668)
At 31 March 2023 (after offsetting)					247,845

The deferred tax liability due after more than one year prior to offsetting is \$312.4 million (2022: \$325.5 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 2023 was \$15.9 million (2022: \$26.9 million). The unrecognised deferred tax assets includes losses and US state 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.

The Group unrecognised deferred tax balance relates to \$46.7m of UK losses with no expiry date, \$4.9m of US state research and development credits which expire between 2041 and 2043 and \$3.4m of US state capital losses which expire by 2028.

No deferred tax has been recognised in respect of a further \$94.1 million (2022: \$184.0 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****25 Trade and other payables**

	2023	2022
	\$ 000	\$ 000
Current liabilities		
Trade payables	81,974	85,032
Other taxation and social security	18,854	20,735
Employee related accruals	335,566	635,688
Accruals and other payables	148,204	105,068
	<u>584,598</u>	<u>846,523</u>
Non-current liabilities		
Employee related accruals	43,588	86,841
Accruals and other payables	21,910	53,611
	<u>65,498</u>	<u>140,452</u>
	<u>650,096</u>	<u>986,975</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is within 30 days. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, insignificant interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

Employee related accruals reduced during the year, as certain long-term cash based incentive schemes were replaced with share-based payment schemes.

26 Provisions

	2023	2022
	\$ 000	\$ 000
Dilapidations provision	10,003	11,521
Legal provision	45,000	3,000
IDR provision	1,860	2,327
Restructuring provision	—	25,770
Rates provision	—	11,118
Warranty provision	3,136	5,177
Severance provision	548	1,932
Other provision	1,888	3,596
	<u>62,435</u>	<u>64,441</u>
Current	52,232	49,708
Non-current	10,203	14,733
	<u>62,435</u>	<u>64,441</u>

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****26 Provisions (continued)**

	Dilapidations provision	Legal provision	IDR provision	Restructuring provision	Property rates provision
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
At 1 April 2022	11,521	3,000	2,327	25,770	11,118
Additional provision	29	45,000	—	321	1,281
Utilisation of provision	(1,072)	(3,000)	(362)	(25,387)	(11,935)
Unwinding of discount	182	—	—	—	—
Exchange difference	(657)	—	(105)	(704)	(464)
At 31 March 2023	<u>10,003</u>	<u>45,000</u>	<u>1,860</u>	<u>—</u>	<u>—</u>

	Warranty provision	Severance provision	Other provision	Total
	\$ 000	\$ 000	\$ 000	\$ 000
At 1 April 2022	5,177	1,932	3,596	64,441
Additional provision	1,643	700	3,165	52,139
Utilisation of provision	(1,132)	(2,084)	(3,765)	(48,737)
Reversal of provision	(2,792)	—	—	(2,610)
Unwinding of discount	—	—	—	182
Reclassification from accruals	—	—	(1,122)	(1,122)
Exchange difference	240	—	14	(1,676)
At 31 March 2023	<u>3,136</u>	<u>548</u>	<u>1,888</u>	<u>62,617</u>

The dilapidations provision relates to costs to be incurred in returning leased assets to their original state at the end of the lease. The expected cash outflow of dilapidations provision ranges between one to 21 years.

The legal provision in the prior year related to litigation settlements and expected litigations was fully utilised in the year ended 31 March 2023. A new and separate litigation provision was recognised in the year ended 31 March 2023 expected to be utilised within the next year.

The Indemnités de Départ à la Retraite (IDR) provision relates to French retirement provisions. IAS 19 disclosures have not been made as the scheme is immaterial.

The restructuring provision related to a restructuring programme announced and effective in March 2022.

The property rates provision, previously classified as an accrual, had been recognised as a provision due to ongoing valuation of several of the Group's leased properties. During the year ended 31 March 2023, following valuation updates, the provision balance has been reclassified to accruals.

Warranty provision relates to estimated engineering staff costs to resolve any post-sale issues raised by customers during the warranty period. Estimation of warranty costs is over a four year period.

The severance provision relates to additional termination benefits payable to certain of the Group's former employees subject to conditions.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****27 Share capital****Number of shares authorised, issued and fully paid**

	2023		2022	
	No. '000	\$ '000	No. '000	\$ '000
Ordinary shares of £0.001 each	1,025,234	1,273	1,025,234	1,273

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.

28 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. See note 30.

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

The translation reserve represents 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 US dollar, and translation of goodwill denominated in foreign currencies into US dollars.

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.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative amounts of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction affects the profit or loss.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****Retained earnings**

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

29 Notes to cash flow statement**Reconciliation of net cash from operating activities**

	2023	2022
	\$ 000	\$ 000
Profit for the year from continuing operations	453,365	596,265
Loss for the year from discontinued operations	—	(125,325)
Profit for the year	453,365	470,940
Adjustments for:		
Share of gains of associates	(1,142)	(13,425)
Finance income	(44,442)	(5,318)
Reclassification of OCI on disposal of associate	—	(32,415)
Finance costs	7,617	7,923
Share-based payments	437,339	(52,753)
(Gain)/Loss on derivatives	(8,529)	11,471
Income tax expense	137,990	239,768
Depreciation of property, plant and equipment	73,632	77,846
Depreciation of right-of-use assets	32,180	38,702
Amortisation of intangible assets	92,659	101,633
Gain on sale of other assets (note 35)	(3,701)	—
Impairment of goodwill	—	4,783
Impairment of other intangible assets	—	41,728
Impairment of property, plant and equipment	—	13,597
Impairment of right-of-use assets	—	2,079
Impairment of other receivables reversed	(5,112)	(14,143)
Loss on disposal of tangible assets	3,307	1,155
Loss on disposal of intangible assets	—	6,267
Loss on derecognition of right-of-use assets	—	215
Movement in provisions	(2,006)	32,179
Operating cash flows before movements in working capital	1,173,157	932,232
Decrease in inventories	185	179
Increase in contract assets	(2,448)	(166,672)
(Decrease)/increase in contract and other related liabilities	(25,865)	80,405
Decrease/(increase) in receivables	126,569	(394,753)
(Decrease)/increase in payables	(361,301)	131,655
Cash generated by operations	910,297	583,047
Income taxes paid	(161,007)	(88,622)
Interest paid	(164)	(631)
Net cash from operating activities	749,126	493,793

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****29 Notes to cash flow statement (continued)**

	2023	2022
	\$ 000	\$ 000
Cash and cash equivalents		
Cash at bank	123,868	111,523
Short term deposit	46,967	70,000
Money market funds	1,383,002	822,773
Restricted cash	2,353	1,857
	<u>1,556,189</u>	<u>1,006,153</u>
Deposits	660,546	630,573

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less.

Deposits relate to deposits with a maturity of between three and 12 months. In the prior year, proceeds from maturity of deposits and investments in deposits were shown net. In the current year a reclassification was made to show both current and prior year inflows and outflows separately to provide more information to the users of the financial statements.

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.

	Continuing operations	Discontinued operations	Total
	\$ 000	\$ 000	\$ 000
At 1 April 2021	304,170	11,059	315,229
New leases and lease amendments	7,391	63	7,454
Principal payments on lease liabilities	(45,140)	(1,229)	(46,369)
Early terminations in period	(4,345)	—	(4,345)
Accrued interest	7,555	74	7,629
Reclassified to liabilities held for distribution	—	(9,659)	(9,659)
Foreign exchange differences	(9,835)	(308)	(10,143)
At 31 March 2022	<u>259,796</u>	<u>—</u>	<u>259,796</u>
 New leases and lease amendments	 16,450	 —	 16,450
Principal payments on lease liabilities	(36,370)	—	(36,370)
Early terminations in period	(18,042)	—	(18,042)
Accrued interest	5,701	—	5,701
Foreign exchange differences	(12,530)	—	(12,530)
At 31 March 2023	<u>215,005</u>	<u>—</u>	<u>215,005</u>

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

30 Share-based payments

At 31 March 2023, the Group had the following share-based payment arrangements:

i) Restricted stock unit plan – All Employee Plan ('2019 AEP')

In December 2019, a 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 RSU converts into one ordinary share of the Company or settle in cash on vesting. 2019 AEP will vest upon the occurrence of one of various liquidity events comprising (1) a change in control of the Company, (2) an IPO, and (3) the passage of time. No amounts are paid or payable by the recipient on receipt of the RSUs. The RSUs 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).

Awards are forfeited if the employee leaves the Group before the RSUs vest. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 7.0% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

During the year, the total charge to the income statement recognised within operating expenses in respect of this scheme was \$31.1 million (2022: \$37.4 million). At 31 March 2023, there was an equity reserve for share-based payments of \$109.3 million (2022: \$98.6 million). During the year, \$15.7 million was offered and settled in cash to employees subject to restructuring upon exiting the business and the above scheme.

The number of RSUs granted for the year ended 31 March 2023 was 194,559. The number of RSUs outstanding under the plan as of 31 March 2023 was 11,455,864.

ii) Executive IPO Plan ('2019 EIP')

In April 2020, a share-based payment arrangement was put in place for the Company's Executive Committee. Each participant RSU converts into one ordinary share of the Company or settle in cash on vesting. 2019 EIP will vest upon the occurrence of one of various liquidity events comprising (1) a change in control of the Company, (2) an IPO, and (3) the passage of time. No amounts are paid or payable by the recipient on receipt of the RSUs. The RSUs 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).

Awards are forfeited if the participant leaves the Group before the RSUs vest. The calculation of the compensation cost recognised in the income statement in respect of these awards does not assume forfeitures.

In September 2022, the Company modified the 2019 EIP plan to remove all market conditions associated with the awards. All other material terms of the 2019 EIP plan, including required service remained unchanged as a result of this modification.

In December 2022, the Company's board of directors approved the replacement of 2019 EIP RSUs originally issued to a member of the Company's Executive Committee in exchange for customised Executive Awards under the 2022 RSU plan disclosed below in 'Executive Awards Granted under the 2022 RSU Plan'. Modification accounting is applied for this replacement, the incremental fair value in addition to the grant-date fair value of the original award is recognised over the remaining modified vesting period. The incremental fair value is the difference between the fair value of the replacement award and the net fair value of the cancelled award, both measured at the date on which the replacement award is issued.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

30 Share-based payments (continued)

ii) Executive IPO Plan ('2019 EIP') (continued)

During the year, the total charge to the income statement recognised within operating expenses in respect of this scheme was \$9.3 million (2022: \$4.7 million), inclusive of the modification noted above. At 31 March 2023, there was an equity reserve for share-based payment of \$14.0 million (2022: \$4.7 million).

No RSUs were granted for the year ended 31 March 2023 for this plan. The number of RSUs outstanding under the plan as of 31 March 2023 was 192,999.

iii) Annual RSU Award

In June 2022, the Company adopted the 2022 RSU Plan for all employees. Employees may elect not to participate in the scheme. The RSUs require continuous service through the vesting date and vest upon the passage of time (annual graded vesting) over 3 years. The Group may choose to settle such RSUs in cash or in shares by tranche.

Awards are forfeited if the employee leaves the Group before the RSUs vest. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 7.0% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

As of 31 March 2023, the Company accounted for the compensation plan, except for certain units expected to be settled by cash, as an equity-settled share-based payment transaction. For the units expected to be settled by cash, the Company accounted for them as a cash-settled share-based payment transaction.

The fair value of the RSUs accounted as an equity-settled share-based payment transaction is measured by taking into account the lack of marketability to a calculated entity valuation at the time of grant while the fair value of the RSUs accounted as a cash-settled share-based payment transaction is measured quarterly.

During the year, the total charge to the income statement recognised within operating expenses in respect of this scheme was \$365.8 million (2022: \$nil). At 31 March 2023, the amounts recorded as liabilities and equity reserve for share-based payments were \$234.7 million and \$131.1 million, respectively (2022: \$nil). The value of the awards that have vested, but are unpaid, as at 31 March 2023 is \$228.3 million (2022: \$nil).

The number of RSUs granted for the year ended 31 March 2023 was 17,905,331. The number of RSUs outstanding under the plan as of 31 March 2023 was 16,527,639. Of the outstanding RSUs, 5,502,240 units have vested as of 31 March 2023, and expected to be settled by cash.

iv) Executive Awards Granted under the 2022 RSU Plan

In November 2022, the Company issued two types of Executive Awards under the 2022 RSU Plan to certain members of the Company's Executive Committee, referred to as Annual Awards and One-time Launch Awards. The Executive Awards entitle executive officers to a fixed amount of cash or, after initial public offering, ordinary shares. Annual awards consist of a portion only subject to time-based vesting and a portion subject to performance-based and time-based vesting conditions over 3 years. These awards were granted at a value of \$22.3 million. One-time launch awards are only subject to time-based vesting condition over 3 years and were granted at a value of \$24.7 million.

The Company also granted Executive Awards with customised vesting schedules to certain executive officers. The customised executive awards will vest upon the occurrence of one of various liquidity events comprising (1) a change in control of the Company, (2) an IPO, and (3) the passage of time. These awards are settled at the fixed collective cash amount of \$55.0 million prior to the occurrence of a liquidity event.

During the year, the total charge to the income statement recognised within operating expenses in respect of these schemes was \$31.2 million (2022: \$nil). At 31 March 2023, the amounts recorded as liabilities and equity reserve for share-based payments were \$18.3 million and \$12.9 million, respectively (2022: \$nil).

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****30 Share-based payments (continued)****v) Non-Executive Directors RSU Award Plan ('NED Plan')**

In September 2022, the Company adopted the NED plan. The awards are subject to time-based vesting on continued service of the directors annually. The Company may choose to settle such RSUs in cash or in shares. As of 31 March 2023, the Company accounted for the compensation plan as a cash-settled share-based payment transaction.

The number of RSUs granted and outstanding for the year ended 31 March 2023 was 13,340. All units have vested as of 31 March 2023, and expected to be settled by cash.

During the year, the total charge to the income statement recognised within operating expenses in respect of this scheme was \$0.5 million (2022: \$nil). At 31 March 2023, \$0.5 million was recorded as a liability (2022: \$nil). The value of the awards that have vested, but are unpaid, as at 31 March 2023 is \$0.5 million (2022: \$nil).

vi) Phantom Share Scheme (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 were granted a cash award annually on 1 April which vests over a three-year service period. The cash amount, which the employee is entitled to receive if employed at the end of the three-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 non-market-based vesting conditions by nature, 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	1 April 2020
SoftBank Group Corp. share price	JPY 5,182
SoftBank Group Corp. dividend yield	0.81%
Exercise price	\$nil
Expected volatility	37.62%
Vesting period	3 years
Risk-free interest rate	0.84%

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 2023, the total credit to the income statement in respect of this scheme was \$0.9 million (2022: \$9.0 million). The value of the awards that have vested, but are unpaid, as at 31 March 2023 is \$0.9 million (2022: \$1.4 million). As at 31 March 2023, all awards under this scheme have vested.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****30 Share-based payments (continued)**

Liability for share-based payments	2023	2022
	\$ 000	\$ 000
2019 AEP	1,327	1,732
2022 RSU Plan	253,057	—
NED Plan	507	—
Phantom Share Scheme	1,140	2,806
	<u>256,031</u>	<u>4,538</u>

31 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 has an obligation to contribute to these plans based upon various fixed percentages of employee compensation, and such contributions are expensed as incurred. The assets of these plans are held separately from those of the Group in funds.

The total cost charged to the income statement for the year of \$78.0 million (2022: \$77.0 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2023, contributions of \$9.6 million (2022: \$9.3 million) due in respect of the current reporting period had not been paid over to the schemes.

32 Contract and other related liabilities

	2023	2022
	\$ 000	\$ 000
Amounts related to contracts and other related liabilities	1,100,225	1,126,090
Current	293,401	333,648
Non-current	806,824	792,441
	<u>1,100,225</u>	<u>1,126,090</u>

A reconciliation of the movement in contract and other related liabilities is set out below:

	\$ 000
Balance at 1 April 2022	1,126,090
Cash received in advance of performance obligations	209,253
Amounts included in contract and other related liabilities that were recognised as revenue during the period:	
of which included in the opening balance	(128,085)
of which not included in the opening balance	(105,505)
Disposal (Forge Linaro)	(1,529)
Balance at 31 March 2023	<u>1,100,225</u>

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments****(a) Classification of financial instruments**

	Note	2023			
		Amortised Cost	FVTPL	FVTOCI	Total
		\$ 000	\$ 000	\$ 000	\$ 000
Current assets					
Cash, cash equivalents and deposits	29	2,216,735			2,216,735
Accounts receivable (net of loss allowance)	23	619,691			619,691
Contract assets	22	153,649			153,649
Other receivables	23	106,254			106,254
Derivative financial instruments	33		9,816		9,816
Current financial assets		3,096,329	9,816	—	3,106,145
Non-current assets					
Loans and receivables	20	6,593			6,593
Other receivables	23	139,090			139,090
Contract assets	22	115,734			115,734
Convertible loan receivable	33		30,901		30,901
Unlisted equity securities	20			592,646	592,646
Investments in associates	33			29,322	29,322
Non-current financial assets		261,417	30,901	621,968	914,286
Total financial assets		3,357,746	40,717	621,968	4,020,431
Current liabilities					
Accounts payable	25	81,974			81,974
Accrued and other liabilities	25	102,043			102,043
Lease liabilities	17	26,830			26,830
Derivative financial instruments	24		510		510
Current financial liabilities		210,847	510	—	211,357
Non-current liabilities					
Accrued and other liabilities	25	21,910			21,910
Lease liabilities	17	188,176			188,176
Non-current financial liabilities		210,086	—	—	210,086
Total financial liabilities		420,933	510	—	421,443

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(a) Classification of financial instruments (continued)**

	Note	Amortised Cost \$ 000	2022 FVTPL \$ 000	FVTOCI \$ 000	Total \$ 000
Current assets					
Cash, cash equivalents and deposits	29	1,636,727			1,636,727
Accounts receivable (net of loss allowance)	23	673,686			673,686
Contract assets	22	166,480			166,480
Other receivables	23	130,847			130,847
Derivative financial instruments	33		128		128
Current financial assets		2,607,740	128	—	2,607,868
Non-current assets					
Loans and receivables	20	5,146			5,146
Other receivables	23	134,287			134,287
Contract assets	22	100,456			100,456
Convertible loan receivable	33		29,002		29,002
Unlisted equity securities	20			608,756	608,756
Investments in associates	33			21,017	21,017
Non-current financial assets		239,889	29,002	629,773	898,664
Total financial assets		2,847,629	29,130	629,773	3,506,532
Current liabilities					
Accounts payable	25	85,032			85,032
Accrued and other liabilities	25	98,348			98,348
Lease liabilities	17	33,515			33,515
Derivative financial instruments	24		9,541		9,541
Current financial liabilities		216,895	9,541	—	226,436
Non-current liabilities					
Accrued and other liabilities	25	53,611			53,611
Lease liabilities	17	226,281			226,281
Non-current financial liabilities		279,892	—	—	279,892
Total financial liabilities		496,787	9,541	—	506,328

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(b) Valuation of financial instruments Valuation hierarchy**

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Level 2 assets are valued by discounting future cash flows using externally sourced market yield curves, including interest rate curves and foreign exchange rates from highly liquid markets.

For level 3 assets and liabilities:

- the fair value of investment funds is measured using the latest net asset value of the fund available as at the balance sheet date, and
- unlisted equity investments are measured using an 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 for example through the occurrence of funding or other transactions in the relevant entity's equity instruments.

At 31 March 2023	Note	Level 1 \$ 000	Level 2 \$ 000	Level 3 \$ 000	Total \$ 000
Financial assets					
Convertible loan	33	—	—	30,901	30,901
Derivative financial instruments	33	—	9,816	—	9,816
Financial assets at fair value through other comprehensive income (FVTOCI)					
Unlisted equity securities	20	—	—	592,646	592,646
Investments in associates	33	—	—	29,322	29,322
Total financial assets		—	9,816	652,869	662,685
Financial liabilities					
Derivative financial instruments	33	—	510	—	510
Total financial liabilities		—	510	—	510
At 31 March 2022					
		Level 1 \$ 000	Level 2 \$ 000	Level 3 \$ 000	Total \$ 000
Financial assets					
Convertible loan	33	—	—	29,002	29,002
Derivative financial instruments	33	—	128	—	128
Financial assets at fair value through other comprehensive income (FVTOCI)					
Unlisted equity securities	20	—	8,442	600,314	608,756
Investments in associates	33	—	—	21,017	21,017
Total financial assets		—	8,570	650,333	658,903
Financial liabilities					
Derivative financial instruments	33	—	9,541	—	9,541
Total financial liabilities		—	9,541	—	9,541

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(b) Valuation of financial instruments Valuation hierarchy (continued)****Unlisted equity securities**

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, for example 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.

Financial guarantee contracts

A subsidiary of Arm's ultimate parent company has entered into a facility agreement with financial institutions to borrow \$8.0 billion, providing 75.01% of Arm shares as collateral. The facility agreement includes mandatory prepayment provisions for a part of or for whole loans, which may be triggered under certain circumstances such as sales of Arm shares upon occurrence of a listing and adjusted EBITDA of Arm being lower than the threshold, and an additional cash collateral provision, which may be triggered if a fair value of Arm shares pledged as collateral decreases significantly at a designated test date.

As of 31 March 2023, the term facility loan was \$7.1 billion and the bridge facility loan \$1.4 billion. The term facility loan is to be repaid in full on maturity, which is the earlier of the date falling three months after the effective date of the listing of Arm and 24 months after the borrowing of the term facility loans.

75.01% interest in the Company is pledged as collateral for the facility. A springing guarantee, naming Arm as the guarantor, becomes effective on the triggering event of material breach or misrepresentation, an IPO not occurring within 18 months of 28 March 2022 or such intention being announced. On trigger, future events of default fall to the Company. The guarantee terminates at the earlier of an IPO event or the facility being paid or discharged.

Management's estimation of the probability of the above events taking place, resulting in a cash outflow from Arm or transfer of Arm shares is remote.

The Group is exposed to credit risk in relation to this financial guarantee. The Group's maximum exposure in this respect is the maximum amount the Group could have to pay if the guarantee is called upon. As at 31 March 2023, this amount is \$8.5 billion.

Convertible loan receivable

On 8 December 2021, the Group acquired unsecured convertible notes with an initial principal amount of \$29.0 million in Ampere Computing Holdings LLC. Interest accrues at a 5.0% annual rate, compounded monthly. Unless earlier converted, all unpaid principal plus accrued and unpaid interest matures in December 2024.

At 31 March 2023, the Group had convertible loans with a carrying value of \$30.9 million (31 March 2022: \$29.0 million).

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(b) Valuation of financial instruments Valuation hierarchy (continued)****Fair value measurements using significant unobservable inputs (level 3)**

	Convertible loan receivable	Investments in associates	Unlisted equity securities	Total
	\$ 000	\$ 000	\$ 000	\$ 000
At 1 April 2022	29,002	21,018	600,313	650,334
Additions - cash	—	1,500	11,593	13,093
Additions - conversion of trade receivable	—	—	12,688	12,688
Reclassification of accounting from equity method to fair value method	—	3,500	—	3,500
Revaluation gains recognised in income statement	1,899	—	—	1,899
Revaluation gains recognised in other comprehensive income	—	(1,808)	(40,390)	(42,198)
Converted into preferred shares	—	5,112	—	5,112
At 31 March 2023	30,901	29,322	592,646	652,869

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(c) Maturity of financial liabilities**

The table below analyses the Group's financial liabilities 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 2023				
Trade payables	81,974	—	—	—
Accrued and other liabilities	88,982	12,146	20,731	2,093
Lease liabilities	17,481	14,317	27,111	203,406

	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 2022				
Trade payables	85,032	—	—	—
Accrued and other liabilities	27,737	20,395	32,674	18,915
Lease liabilities	21,306	18,554	29,915	246,607

Loans and receivables

At 31 March 2023, the Group had loans receivable from associates with a carrying value of \$nil (2022: \$3.0 million). See note 35 for further details. At 31 March 2023, the Group had loans receivable from other parties with a carrying value of \$6.6 million (2022: \$5.1 million).

The Group had no borrowings during the year ended 31 March 2023 (2022: \$nil).

The effective interest rate on short-term deposits and similar instruments outstanding at 31 March 2023 was 5.02% (2022: 0.61%) and these deposits have an average maturity of 119 days (2022: 118 days).

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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(c) Maturity of financial liabilities**

	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 2023				
Foreign exchange forward contracts designated as cash flow hedges				
Outflow	(6,517)	(2,274)	(1,024)	—
Inflow	63	349	97	—
At 31 March 2022				
Foreign exchange forward contracts not designated as a hedge				
Outflow	(6,660)	(2,222)	(659)	—
Inflow	102	4	22	—

The net loss on foreign currency forwards not qualifying as hedges for the year amounted to \$(29.6) million loss (2022: \$11.4 million gain), of which \$29.6 million loss (2022: \$2.1 million gain) 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 they 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 US dollar; and
- loans to subsidiaries in currencies other than the Group's functional currency.

The impact of 10% depreciation of USD against GBP is as follows:

	2023		2022	
	Income gain / (loss) loss	Equity gain/(loss)	Income gain / (loss) loss	Equity gain/(loss)
	\$ 000	\$ 000	\$ 000	\$ 000
10% depreciation of GBP against USD (2022: 10%)	15,404	(31,489)	(12,163)	—

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

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 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, deposits, and similar instruments and loan receivables.

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

	2023		2022	
	Income gain/(loss)	Equity gain/(loss)	Income gain/(loss)	Equity gain/(loss)
	\$ 000	\$ 000	\$ 000	\$ 000
1% decrease in interest rates (2022: 1%)	(15,692)	—	(12,325)	—

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

Credit risk

The Group is exposed to credit risk arising from cash and cash equivalents, 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 cash and deposit investments and derivative contracts, 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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****(d) Risk management of financial instruments (continued)****Expected credit losses (continued)**

Management's assessment of determining ECL rates is dependent on jurisdiction, and the relevant expected loss rates are as follows:

Ageing (days)	Expected loss rate	Expected loss rate
	China	Rest of World
0-30	0.01%	0.86%
31-60	0.00%	0.24%
61-90	0.25%	0.04%
91-180	0.15%	2.35%
181-365	0.00%	1.01%
> 365	10.72%	88.25%

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

The Group's overall expected credit loss in respect of trade receivables at 31 March 2023 was \$2.9 million (2022: \$39.7 million). For the movement in the loss allowance in respect of trade receivables, refer note 23.

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 2023 (2022: \$nil).

At 31 March 2023, one customer (2022: one customer) accounted for over 10% of trade receivables.

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.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****33 Financial instruments (continued)****Derivatives designated as hedging instruments****Cash flow hedge**

Derivatives are used to hedge exposure to market risks arising in relation to foreign exchange, some of which are economic hedges and others are formally designated hedging instruments with hedge accounting applied.

The fair value and notional amounts of derivatives analysed by hedge type are shown below:

	2023			
	Asset		Liability	
	Fair Value	Notional	Fair Value	Notional
	\$000	\$000	\$000	\$000
Cash flow hedges				
Foreign exchange forward contracts	9,816	336,538	(510)	74,762
Derivatives not designated as a hedge				
Foreign exchange forward contracts	—	—	—	—
2022				
	Asset		Liability	
	Fair Value	Notional	Fair Value	Notional
	\$000	\$000	\$000	\$000
Cash flow hedges				
Foreign exchange forward contracts	—	—	—	—
Derivatives not designated as a hedge				
Foreign exchange forward contracts	128	52,421	(9,541)	377,386

At 31 March 2023, foreign exchange forward contracts, designated as cash flow hedges, equivalent to \$411.3 million were outstanding (2022: \$nil). These forward contracts are in relation to the purchases of GBP, with varying maturities out to Feb 2024. The rates ranged from USD/ GBP 1.079 to 1.265 (2022: N/a).

At 31 March 2023, foreign exchange forward contracts, not designated as a hedge, equivalent to nil were outstanding (2022: \$429.8 million). The rates ranged from USD / GBP N/a (2022: 1.3036 to 1.3780).

34 Events after the balance sheet date**Group and Company**

On 29 April 2023 Arm announced that it has confidentially submitted a draft registration statement on Form F-1 to the U.S. Securities and Exchange Commission (the "SEC") relating to the proposed initial public offering of American depository shares representing its ordinary shares. The size and price range for the proposed offering have yet to be determined. The initial public offering is subject to market and other conditions and the completion of the SEC's review process. This event has had no financial statement impact.

Arm Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2023

35 Related party transactions

The Company has taken advantage of the available exemption from disclosing transactions with other companies within the Group that 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 and SoftBank Group companies

Arm Technology (China) Co. Limited

The Group disposed of its 48.2% shareholding in Arm Technology (China) Co. Limited ('Arm China') to Acetone Limited, another subsidiary of SoftBank Group Corp., on 28 March 2022. Since 28 March 2022 the Group's 10% equity investment in Acetone has been reflected as an associate in the Group's financial statements. See note 19 for further detail.

Subsequent to the disposal of the Group's controlling interest in Arm China in 2018, a substantial proportion of customer contracts previously held by the former China subsidiary were novated to Arm China; under such contracts the Group is entitled to a share of revenue earned by Arm China. Where contracts were not novated from the former China subsidiary to Arm China, the Group had an obligation to share a proportion of the revenue with Arm China.

Under the terms of the joint venture agreement Arm has recognised share of revenues amounting to \$649.4 million during the year ended 31 March 2023 (2022: \$455.3 million). During the year ended 31 March 2023, the Group incurred costs of \$64.0 million from Arm China under the terms of the joint venture agreement, of which a majority of costs relate to direct and indirect staff costs (2022: \$58.6 million).

At 31 March 2023, the Group was owed a net receivable of \$386.9 million (\$400.7 million receivable less \$13.9 million payable) by Arm China (2022: net receivable of \$568.3 million comprising of \$596.2 million receivable less \$27.9 million payable), and had a \$103.4 million contract liability balance (2022: \$122.4 million).

Of the balance due from Arm China at 31 March 2023, \$nil (2022: \$13.7 million) had been provided for. During the year ended 31 March 2023 there was a net credit to the income statement of \$13.7 million (2022: \$10.4 million credit).

During the year ended 31 March 2023, the Group leased assets to Arm China. The Group recognised revenue of \$2.0 million from the leased assets (2022: \$1.6 million).

Companies related by virtue of common control in the SoftBank Group

During the year ended 31 March 2023, the Group had transactions with other companies within the SoftBank Group that generated revenues of \$1.3 million (2022: \$6.0 million) and expenses of \$nil (2022: \$2.0 million). As at 31 March 2023, \$0.5 million (2022: \$14.1 million) was owed to the Group by members of the SoftBank Group. At 31 March 2023 contract liabilities with members of the SoftBank Group totaled \$1.6 million (2022: \$nil). These transactions were in the ordinary course of business on an arm's length basis.

During the year ended 31 March 2022, prior to the disposal of Treasure Data on 25 June 2021 (see note 12), a loan of \$50.0 million was issued by SoftBank Vision Fund II, a member of the SoftBank Group to Treasure Data, Inc. Interest on this loan balance was charged at 2.84% per annum. The loan balance, including accrued interest, was included in the distribution.

During the year ended 31 March 2022, the Group entered into a financial guarantee contract with another company within the SoftBank Group. Refer to note 33 for further details.

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****35 Related party transactions (continued)****Linaro Limited**

During the year ended 31 March 2023, the Group incurred subscription and other costs of \$8.9 million from Linaro Limited ('Linaro'), an associated company of the Group (2022: \$7.9 million). As at 31 March 2023, \$0.5 million (2022: \$nil) was owed to Linaro.

During the year ended 31 March 2023 the Group sold the trade and net assets relating to the Arm Forge Software business to Linaro for consideration of \$4.0 million (2022: \$nil), resulting in a realised gain on disposal of \$3.7 million recognised in selling, general and administrative expenses (2022: \$nil). As at 31 March 2023 the full consideration (2022: \$nil) was held as a receivable balance, with \$0.8 million recognised in current assets and \$2.8 million (after discounting to present value) recognised in non-current assets.

In conjunction with the sale, the parties also entered into an IP licensing agreement whereby Linaro received a license to use certain of the Group's IP, and Linaro agreed to provide certain support and maintenance services for certain customer contracts not transferred as part of the sale.

Loans to related parties

	2023	2022
	\$ 000	\$ 000
Loans to associates:		
Cerfe Labs, Inc.	—	3,029

During the year ended 31 March 2022, the Group provided a 4-year loan of \$3.0 million to Cerfe Labs, Inc., an associate entity, at a rate comparable to the average commercial rate of interest.

At 31 March 2023 the Group had a loan receivable with Arduino SA, an associate entity, of \$19.2 million (2022: \$23.7 million) which was credit impaired in full as at 31 March 2023 and as at 31 March 2022. During the year ended 31 March 2023 the Group converted \$5.1 million, through an amendment signed in April 2022, into equity and recognised \$5.1 million reversal of impairment loss and \$5.1 million increase to investments in associates.

The Group is guarantor for a \$5.4 million credit facility available to Arduino SA. The guarantee expiry date is 26 January 2024. At 31 March 2023 no claims have been made against the guarantee (2022: none).

Companies related due to significant influence of key management personnel

During the year ended 31 March 2023 the Group incurred professional fees with Raine Securities LLC, an entity under the significant influence of a director of the Company, of \$2.5 million (2022: \$nil). At 31 March 2023 this amount was included in accruals and other payables (2022: \$nil).

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****Remuneration of key management personnel**

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

	2023	2022
	\$ 000	\$ 000
Short-term employee benefits	26,710	31,368
Post-employment benefits	149	15
Other long-term benefits	231	(11,682)
Termination benefits	13,000	16,666
Employer social security	4,003	760
Share-based payments	28,366	(8,479)
	<u>72,459</u>	<u>28,648</u>

Arm Limited**Notes to the Consolidated Financial Statements (continued)****For the year ended 31 March 2023****35 Related party transactions (continued)**

The total amounts for directors' remuneration were as follows:

	2023	2022
	\$ 000	\$ 000
Salaries, fees, bonuses and benefits in kind	17,326	13,657
Amounts receivable under long-term incentive schemes	8,695	5,100
Termination benefits	—	10,010
	<u>26,021</u>	<u>28,767</u>

In respect of the highest paid director:

	2023	2022
	\$ 000	\$ 000
Salaries, fees, bonuses and benefits in kind	16,547	1,322
Amounts receivable under long-term incentive schemes	8,695	3,640
Termination benefits	—	10,010
	<u>25,242</u>	<u>14,972</u>

One director (2022: one) had accrued benefits during the year ended 31 March 2023 under a money purchase pension scheme as a result of their services to the Group.

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 30 for further details).

During the year ended 31 March 2023, one of the directors (2022: two) had share awards vest worth \$0.7 million (2022: \$1.8 million).

36 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is Kronos II LLC, a company registered in Delaware, United States of America. 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 both the largest and smallest group of undertakings, including Arm Limited, 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.

Arm Limited**Company Balance Sheet (Registered Number: 02557590)****As at 31 March 2023**

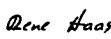
		2023	2022
	Note	\$ 000	\$ 000
Non-current assets			
Intangible assets	38	187,341	252,049
Property, plant and equipment	39	114,380	106,534
Right-of-use assets	40	156,356	167,861
Investments in subsidiaries	41	215,260	230,586
Investments in associates	42	28,473	27,268
Other investments	43	53,378	43,652
Trade and other receivables	46	111,084	115,610
Contract assets	45	115,734	100,456
Tax assets		4,814	—
		<u>986,820</u>	<u>1,044,016</u>
Current assets			
Inventories	44	1,662	1,878
Contract assets	45	153,640	166,480
Trade and other receivables	46	1,325,183	1,443,070
Deposits		660,000	630,000
Cash and cash equivalents		1,446,938	895,353
Fair value of currency exchange contracts	33	9,816	128
		<u>3,597,239</u>	<u>3,136,909</u>
Total assets		<u>4,584,059</u>	<u>4,180,925</u>
Current liabilities			
Trade and other payables	48	927,549	884,041
Lease liabilities	40	10,429	12,662
Contract liabilities	49	292,923	333,472
Provisions	50	47,823	35,999
Fair value of currency exchange contracts	33	510	9,541
Current tax liability		113,276	122,235
		<u>1,392,510</u>	<u>1,397,951</u>
Net current assets		<u>2,204,729</u>	<u>1,738,958</u>
Non-current liabilities			
Deferred tax liabilities	47	144,315	165,695
Trade and other payables	48	47,306	95,181
Lease liabilities	40	152,900	172,409
Contract liabilities	49	806,824	792,441
Provisions	50	9,888	10,890
Liability for share-based payments	30	—	461
		<u>1,161,233</u>	<u>1,237,077</u>
Total liabilities		<u>2,553,743</u>	<u>2,635,028</u>
Net assets		<u>2,030,316</u>	<u>1,545,897</u>

Arm Limited**Company Balance Sheet (Registered Number: 02557590)****As at 31 March 2023**

	Note	2023 \$ 000	2022 \$ 000
Equity			
Share capital	27, 28	1,273	1,273
Share premium account	28	583,279	583,279
Share-based payments	28, 30	272,705	98,620
Other reserves	51	47,160	47,160
Cash Flow Hedge Reserve	28	7,643	—
Investment revaluation reserve	28	20,993	34,447
Retained earnings	28	1,097,263	781,118
Total equity		2,030,316	1,545,897

The Company reported a profit for the financial year ended 31 March 2023 of \$316.1 million (2022: loss of \$437.3 million).

The financial statements were authorised for issue by the Board of Directors on and were signed on its behalf by:

DocuSigned by:

 R Haas
 F1F09375F1BE489...
 Chief Executive Officer
 28 July 2023

Arm Limited**Company Statement of Changes in Equity****For the Year Ended 31 March 2023**

	Share capital	Share premium account	Share- based payments	Other reserves	Cash Flow Hedge Reserve	Investment revaluation reserve	Retained earnings	Total equity
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Balance at 1 April 2021	1,273	583,279	—	47,160	—	13,359	1,226,862	1,871,933
Loss for the year	—	—	—	—	—	—	(437,285)	(437,285)
Other comprehensive income/(expense) for the year:								
Investment revaluation	—	—	—	—	—	24,418	—	24,418
Deferred tax on investment revaluation	—	—	—	—	—	(3,330)	—	(3,330)
Dividend income	—	—	—	—	—	—	712,336	712,336
Total comprehensive income/(expense) for the year	—	—	—	—	—	21,088	275,051	296,139
Distributions in specie	—	—	—	—	—	—	(720,795)	(720,795)
Share-based compensation expense	—	—	98,620	—	—	—	—	98,620
Balance at 31 March 2022	1,273	583,279	98,620	47,160	—	34,447	781,118	1,545,897
Balance at 1 April 2022	1,273	583,279	98,620	47,160	—	34,447	781,118	1,545,897
Profit for the year	—	—	—	—	—	—	316,145	316,145
Other comprehensive income/(expense) for the year:								
Investment revaluation	—	—	—	—	—	(15,878)	—	(15,878)
Deferred tax on investment revaluation	—	—	—	—	—	2,424	—	2,424
Cash flow hedge - fair value gains in the year	—	—	—	—	5,568	—	—	5,568
Cash flow hedge - gains transferred to the income statement	—	—	—	—	4,622	—	—	4,622
Deferred tax on cash flow hedge	—	—	—	—	(2,547)	—	—	(2,547)
Total comprehensive income/(expense) for the year	—	—	—	—	7,643	(13,454)	316,145	310,334
Share-based compensation expense	—	—	168,785	—	—	—	—	168,785
Deferred tax on share-based compensation	—	—	5,300	—	—	—	—	5,300
Balance at 31 March 2023	1,273	583,279	272,705	47,160	7,643	20,993	1,097,263	2,030,316

AMM LIMITED

Notes to the Company Financial Statements

For the year ended 31 March 2023

37 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 directors' remuneration is disclosed in note 35 to the consolidated financial statement.

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

	2023	2022
	No.	No.
Engineering	2,182	2,196
Non-engineering	790	940
Total	<u>2,972</u>	<u>3,136</u>

Their aggregate remuneration comprised:

	2023	2022
	\$ 000	\$ 000
Wages and salaries	339,842	493,072
Social security costs	73,116	69,967
Pension costs	<u>49,566</u>	<u>50,935</u>
	462,524	613,974
Equity-settled Share-based payments	82,474	(17,512)
Cash-settled Shared-based payments	113,810	(4,481)
Total employee benefit expense	<u>658,808</u>	<u>591,981</u>

Of the total pension costs above, \$4.1 million remained unpaid at 31 March 2023 (2022: \$4.5 million).

Arm Limited**Notes to the Company Financial Statements****For the year ended 31 March 2023****38 Intangible assets**

	Goodwill	Patents and licences	Acquired intangibles	Computer software	Intangible assets under construction	Total
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Cost						
At 1 April 2022	57,293	178,153	79,180	250,638	29,920	595,184
Additions	—	—	—	23,033	146	23,179
Disposals	—	—	(8,689)	(8,421)	—	(17,110)
Transfers	—	—	—	29,854	(29,854)	—
At 31 March 2023	<u>57,293</u>	<u>178,153</u>	<u>70,491</u>	<u>295,104</u>	<u>212</u>	<u>601,253</u>
Amortisation and impairment						
At 1 April 2022	—	157,020	78,615	107,500	—	343,135
Charge for the year	—	11,838	565	74,949	—	87,352
Disposals	—	—	(8,689)	(7,886)	—	(16,575)
Transfers	—	—	—	—	—	—
At 31 March 2023	<u>—</u>	<u>168,858</u>	<u>70,491</u>	<u>174,563</u>	<u>—</u>	<u>413,912</u>
Carrying amount						
At 31 March 2023	<u>57,293</u>	<u>9,295</u>	<u>—</u>	<u>120,541</u>	<u>212</u>	<u>187,341</u>
At 31 March 2022	<u>57,293</u>	<u>21,133</u>	<u>565</u>	<u>143,138</u>	<u>29,920</u>	<u>252,049</u>

Arm Limited
Notes to the Company Financial Statements
For the year ended 31 March 2023

39 Property, plant and equipment

	Leasehold improve- ments \$ 000	Computer equipment \$ 000	Fixtures, fittings and motor vehicles \$ 000	Assets under construction \$ 000	Total \$ 000
Cost					
At 1 April 2022	88,036	105,882	11,625	42	205,585
Additions	781	45,774	456	229	47,240
Transfers	43	—	—	(43)	—
Disposals	(110)	(5,548)	(129)	—	(5,787)
At 31 March 2023	88,750	146,108	11,952	228	247,038
Depreciation					
At 1 April 2022	30,476	61,268	7,308	—	99,052
Charge for the year	10,827	26,427	2,048	—	39,302
Transfers	—	—	—	—	—
Disposals	(110)	(5,457)	(129)	—	(5,696)
At 31 March 2023	41,193	82,238	9,227	—	132,658
Carrying amount					
At 31 March 2023	47,557	63,870	2,725	228	114,380
At 31 March 2022	57,560	44,614	4,318	42	106,533

40 Leases

(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
At 1 April 2022	155,280	12,583	167,863
Additions ¹	1,330	368	1,698
Depreciation charge for the year	(9,310)	(3,824)	(13,134)
Other movements ²	(71)	—	(71)
At 31 March 2023	147,229	9,127	156,356

¹ Additions comprise increases to right-of-use assets as a result of entering into new lease and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.

² Other movements relate to terminated leases and downwards remeasurements of right-of-use assets arising from reduction or reassessments of lease terms and decreases in lease payments.

These right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease agreement. As at the date of these financial statements, the remaining terms range from six months to 18 years.

In respect of the UK property portfolio there is commonly a right to negotiate replacement leases on expiry, by virtue of the Landlord and Tenant Act 1954.

Arm Limited
Notes to the Company Financial Statements
For the year ended 31 March 2023

40 Leases (continued)

(b) Lease liabilities

The carrying amount of lease liabilities at 31 March 2023 are set out below:

	Property	IT equipment	Total
	\$ 000	\$ 000	\$ 000
Current	6,593	3,836	10,429
Non-current	147,247	5,653	152,900
	<u>153,840</u>	<u>9,489</u>	<u>163,329</u>

It is expected that as a lease matures it will either be extended or replaced by a new lease on similar terms

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 2023 and the contractual maturity date.

	Within 1 year	Between 1 and 5 years	Over 5 years	Total
	\$ 000	\$ 000	\$ 000	\$ 000
Property	6,593	26,609	120,638	153,840
IT equipment	3,536	5,653	—	9,189
	<u>10,129</u>	<u>32,262</u>	<u>120,638</u>	<u>163,029</u>

Certain lease payments are not recognised as a liability. This arises when the company continues to pay rents and occupy properties after the lease has expired. Payments made under such leases are expensed on a straight-line basis.

Amounts paid for short-term and low value leases not included within the lease liability are immaterial.

The table below details changes in the company's lease liabilities, including both cash and non-cash changes for the year ended 31 March 2023 and year ended 31 March 2022.

	Continuing operations
	\$ 000
At 1 April 2021	209,722
New leases and lease amendments	(408)
Principal payments on lease liabilities	(15,191)
Early terminations in period	(17)
Foreign exchange differences	(9,035)
At 31 March 2022	<u>185,071</u>
New leases and lease amendments	1,697
Principal payments on lease liabilities	(11,719)
Early terminations in period	(69)
Foreign exchange differences	(11,651)
At 31 March 2023	<u>163,329</u>

Arm Limited
Notes to the Company Financial Statements
For the year ended 31 March 2023

(c) Impact on the Income Statement

	2023	2022
	\$ 000	\$ 000
Depreciation charge of right-of-use assets		
Property	9,310	13,210
IT equipment	3,824	3,726
	<u>13,134</u>	<u>16,936</u>
 Interest expense	 4,323	 5,123

41 Investment in subsidiaries

	\$ 000
Cost	
At 1 April 2022	1,483,726
Share-based payments transaction (see note 30)	(15,326)
At 31 March 2023	<u>1,468,400</u>
 Provision for impairment	
At 1 April 2022	1,253,140
At 31 March 2023	<u>1,253,140</u>
 Net book value	
At 31 March 2023	<u>215,260</u>
At 31 March 2022	<u>230,586</u>

The share-based payments transactions relate to the RSU employee share scheme, which grants RSUs to employees of the Company's subsidiaries over the Company's shares for services rendered in the subsidiaries (see note 30). The share-based payment transactions represent the capital contribution in the subsidiaries as those services are rendered to the subsidiaries.

Details of the Company's subsidiaries at 31 March 2023 are shown below. All investments are directly held, 100% ownership of a single class of ordinary shares unless otherwise shown.

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023**

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 Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Allinea Software, Inc. ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	Software sales	100%
Apical Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Engineering and sales support	100%
Arm Asia Investment G.P. Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment company	100%

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****41 Investment 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 Canada, Inc	c/o Baker McKenzie LLP, 181 Bay Street, Toronto, ON M5J 2T3, Canada	Administration	100 %
Arm Denmark Aps	Ragnagade 7, 2100 Copenhagen, Denmark	Development of IoT	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 Finance Overseas Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment company	100 %
Arm France SAS	732 avenue de Roumanille, Bâtiment B, 06410 Biot, France	Marketing, research and development of RISC-based microprocessors and physical IP	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. ¹	Obrtna Cesta 18, SI-8310, Sentjernej, Slovenia	Marketing of RISC-based microprocessor IP. Marketing and research and development of microcontroller tools	100 %

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****41 Investment in subsidiaries (continued)**

Name	Address of the registered office	Principal activity	Proportion of shares held
Arm Holdings Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Arm Holdings US, Inc.	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	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 %
Arm, Inc. ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	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 ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	Holding company	100 %
Arm PIPD Holdings Two, LLC ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	Holding company	100 %
Arm Poland Sp. z o.o	ul. Żelazna 2, 40-851 Katowice, Poland	Research and development of RISC-based microprocessors IP	100 %
Arm Sweden AB	Emdalavägen 6, SE-223 69 Lund, Sweden	Research and development of graphics IP	100 %

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****41 Investment in subsidiaries (continued)**

Name	Address of the registered office	Principal activity	Proportion of shares held
Arm Sansa Holdings, Inc. ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE19801, US	Dormant	100%
Arm Taiwan Limited	9F., NO.55,57, Zhouzi St., Neihu Dist., Taipei City 11493, Taiwan (R.O.C.)	Marketing, research and development of RISC-based microprocessors and physical IP	100 %
Arm Technologies Israel Limited ¹	24 Zarhin Street, POB 4334, Ra'anana, 4366249, Israel	Development of system IP	100 %
Arm Technology Investments Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment company	100 %
Arm Technology Investments 2 Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Investment company	100 %
Arm Technology Investments, Inc. ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	Investment company	100 %
Arm UK Holdings Limited ¹	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Holding company	100 %
ChaoLogix, Inc. ¹	CT Corporation System 1200 South Pine Island Road Plantation, FL 95134-1358, US	Dormant	100 %
ChaoLogix USA, LLC ¹	CT Corporation System 1200 South Pine Island Road Plantation, FL 95134-1358, US	Dormant	100 %
Keil Software, Inc. ¹	CT Corporation System, 1999 Bryan St., STE 900, Dallas, TX 75201	Dormant	100 %
Mistbase AB ¹	c/o Arm Sweden AB, Emdalavägen 6, 223 69 Lund Sweden	Dormant	100 %
Arm Chuangxin (Shanghai) Technology Co., Ltd. (formerly 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 Arm China	100 %

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****41 Investment in subsidiaries (continued)**

Name	Address of the registered office	Principal activity	Proportion of shares held
Simulity Labs Limited	110 Fulbourn Road, Cambridge, CB1 9NJ, UK	Dormant	100%
Sunrise Micro Devices, Inc. ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, US	Dormant	100 %
WigWag, Inc. ¹	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington DE, US	Dormant	100 %

¹ Investment owned indirectly by the Company.**42 Investment in associates**

	\$ 000
Cost	
At 1 April 2022	27,268
Additions	1,500
Loan to equity conversion	5,112
Fair value adjustments	(1,807)
Impairment	(3,600)
At 31 March 2023	<u>28,473</u>

For further details of the disposal in the year, please see note 19.

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****42 Investment in associates (continued)**

Details of the Company's associates at 31 March 2023 are as follows:

Name	Place of business and registered office address	Principal activity	Holding	Proportion of ownership interest %	Proportion of voting power held %
Acetone Limited	PO Box 500, Grand Cayman, KY1-1106, Cayman Islands	Holding Company	Ordinary shares ¹	10.0	10.0
Arduino SA	Corso San Gottardo 6A, 6830 Chiasso, Switzerland	Computer programming activities	Preferred Shares ²	15.7	15.7
Cerfe Labs, Inc.	9401 Honeycomb Drive, Austin, Texas, 78737-1132, United States	Development of CeRAM memory technology	Ordinary shares	20.0	20.0
Linaro Limited	Harston Mill, Harston, Cambridge, CB22 7GG	Software engineering collaboration for Arm Ecosystem	None ³	25.0	25.0

¹ The Company is considered to have significant influence over Acetone Limited.² The Company is considered to have significant influence over Arduino SA by way of a material loan to the company and by influence over the entity's board of directors. The investment in Arduino SA is held at fair value.³ The Company is one of four Core Members of Linaro Limited; the Core Members jointly control the business.

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****43 Other investments**

	2023	2022
	\$ 000	\$ 000
Investments in equity instruments designated as FVTOCI		
Unlisted shares	50,291	37,339
	<u>50,291</u>	<u>37,339</u>
Loans receivable carried at amortised cost		
Loans to associates	—	3,028
Loans to other entities	3,087	3,285
	<u>3,087</u>	<u>6,313</u>
Total investments	<u>53,378</u>	<u>43,652</u>

Unlisted shares represent either direct or indirect, through a capital fund, investments in unlisted early-stage development enterprises that are generating value for shareholders through research and development activities.

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.

44 Inventories

	2023	2022
	\$ 000	\$ 000
Finished goods and work in progress	1,662	1,878

45 Contract assets

	2023	2022
	\$ 000	\$ 000
Contract assets	269,374	266,936
Current	153,640	166,480
Non-current	115,734	100,456
	<u>269,374</u>	<u>266,936</u>

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

	\$ 000
Balance at 1 April 2022	266,936
Performance obligations satisfied during the period	253,117
Transfers in the period from contract assets to trade receivables	(250,679)
Balance at 31 March 2023	<u>269,374</u>

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****46 Trade and other receivables**

	2023	2022
	\$ 000	\$ 000
Current assets		
Trade receivables	618,170	710,148
Loss allowance	(2,908)	(39,630)
Net trade receivables	<u>615,262</u>	<u>670,518</u>
Prepayments	44,346	34,832
Accrued income	377,127	430,991
Amounts due from Group undertakings	195,305	192,996
Other receivables	93,138	113,733
	<u>1,325,178</u>	<u>1,443,070</u>
Non-current assets		
Prepayments	7,994	12,714
Other receivables	103,090	102,896
	<u>111,084</u>	<u>115,610</u>
Current	1,325,178	1,443,070
Non-current	111,084	115,610
	<u>1,436,262</u>	<u>1,558,680</u>

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

47 Deferred tax

The movement of the deferred tax account is shown below:

	2023	2022
	\$ 000	\$ 000
At 1 April	(165,695)	(139,876)
Income statement credit	12,826	(32,781)
Reclassification from current tax	3,377	10,292
Charge to other comprehensive income	(123)	(3,330)
Charge to reserves	5,300	—
At 31 March	<u>(144,315)</u>	<u>(165,695)</u>

The amount of deferred tax assets unrecognised at 31 March 2023 was \$1.4m (2022: \$nil). This is made up of \$5.7m of UK capital losses with no expiry date.

In the prior year financial statements, Deferred tax assets and Deferred tax liabilities were reported separately within the Company Balance Sheet. In these financial statements deferred tax balances have been offset and are reported on a net basis. Deferred tax assets and liabilities are offset since the company has a legally enforceable right to offset the future recoverable and payable amounts which relate to income taxes levied solely by the UK taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****47 Deferred tax (continued)**

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

	Temporary differences relating to fixed assets	Temporary differences relating to liabilities	Total
	\$ 000	\$ 000	\$ 000
Deferred tax assets			
At 1 April 2021	13,077	43,130	56,207
Income statement credit/ (charge)	3,378	(5,665)	(2,287)
Movement from current tax assets	—	10,292	10,292
At 31 March 2022	16,455	47,757	64,212
Offsetting of deferred tax liabilities			(64,212)
At 31 March 2022 (after offsetting)			—
At 1 April 2022	16,455	47,757	64,212
Income statement credit	3,043	4,561	7,604
Movement through reserves		5,300	5,300
Movement from current tax assets	—	3,377	3,377
At 31 March 2023	19,498	60,995	80,493
Offsetting of deferred tax liabilities			(80,493)
At 31 March 2023 (after offsetting)			—
	Amounts relating to intangible assets arising on acquisition	Other	Total
	\$ 000	\$ 000	\$ 000
Deferred tax liabilities			
At 1 April 2021	1,888	194,195	196,084
Income statement charge/(credit)	(1,818)	32,312	30,494
Movement through reserves	—	3,330	3,330
At 31 March 2022	70	229,837	229,908
Offsetting of deferred tax assets			(64,212)
At 31 March 2022 (after offsetting)			165,696
At 1 April 2022	70	229,837	229,908
Income statement charge/(credit)	(61)	(5,161)	(5,222)
Movement through reserves		123	123
At 31 March 2023	9	224,799	224,809
Offsetting of deferred tax assets			(80,493)
At 31 March 2023 (after offsetting)			144,316

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****48 Trade and other payables**

	2023	2022
	\$ 000	\$ 000
Current liabilities		
Trade payables	74,547	80,879
Amounts owed to Group undertakings	349,705	432,661
Other taxation and social security	10,426	11,266
Employee related accruals	375,171	266,540
Accruals and other payables	117,700	92,695
	<u>927,549</u>	<u>884,041</u>
Non-current liabilities		
Employee related accruals	25,194	39,559
Accruals and other payables	22,112	55,622
	<u>47,306</u>	<u>95,181</u>
Current	927,549	884,041
Non-current	47,306	95,181
	<u>974,855</u>	<u>979,222</u>

49 Contract liabilities

	2023	2022
	\$ 000	\$ 000
Amounts related to contracts	<u>1,099,747</u>	<u>1,125,913</u>
Current	292,923	333,472
Non-current	806,824	792,441
	<u>1,099,747</u>	<u>1,125,913</u>

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

	\$ 000
Balance at 1 April 2022	1,125,913
Cash received in advance of performance	204,214
Amounts included in contract liabilities that was recognised as revenue during the period:	
of which included in the opening balance	(128,085)
of which not included in the opening balance	(100,766)
Disposal (Forge Linaro)	(1,529)
Balance at 31 March 2023	<u>1,099,747</u>

Arm Limited**Notes to the Company Financial Statements (continued)****For the year ended 31 March 2023****50 Provisions**

	2023	2022
	\$ 000	\$ 000
Dilapidations provision	9,888	11,317
Legal provision	45,000	3,000
Restructuring provision	—	18,182
Rates provision	—	11,497
Other provision	2,823	2,892
	<u>57,711</u>	<u>46,888</u>
Current	47,823	35,999
Non-current	9,888	10,890
	<u>57,711</u>	<u>46,889</u>

	Dilapidations provision	Legal provision	Restructuring provision
	\$ 000	\$ 000	\$ 000
At 1 April 2022	11,317	3,000	18,182
Additional provision in the year	—	45,000	—
Utilisation and reversal of provision	(891)	(3,000)	(18,182)
Unwinding of discount	181	—	—
Exchange difference	(719)	—	—
At 31 March 2023	<u>9,888</u>	<u>45,000</u>	<u>—</u>

	Rates provision	Other provision	Total
	\$ 000	\$ 000	\$ 000
At 1 April 2022	11,497	2,892	46,888
Additional provision in the year	1,599	3,530	50,129
Utilisation and reversal of provision	—	(3,997)	(37,668)
Transfer to accruals	(11,598)	—	—
Unwinding of discount	—	—	181
Exchange difference	(1,498)	398	(1,819)
At 31 March 2023	<u>—</u>	<u>2,823</u>	<u>57,711</u>

Refer to note 26 for details of the provisions.

51 Capital and reserves**Share capital, share premium account, share-based payments, investment revaluation reserve, cash flow hedge reserve and retained earnings**

See note 28 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 (see note 28).