

ARM Holdings plc
Consolidated balance sheet - IFRS

	31 March 2014 Unaudited £m	31 December 2013 Audited £m
Assets		
Current assets:		
Cash and cash equivalents	39.0	43.8
Short-term deposits	537.8	544.1
Fair value of currency exchange contracts	3.5	5.1
Accounts receivable	150.3	136.2
Available-for-sale financial assets	–	1.2
Prepaid expenses and other assets	44.6	39.8
Current tax assets	9.7	6.9
Inventories: finished goods	2.7	3.0
Total current assets	787.6	780.1
Non-current assets:		
Long-term deposits	164.6	125.6
Loans and receivables	3.0	3.0
Available-for-sale financial assets	15.8	13.9
Investment in joint venture	5.2	6.5
Prepaid expenses and other assets	1.4	1.6
Property, plant and equipment	42.4	33.6
Goodwill	522.7	525.9
Other intangible assets	82.3	82.9
Deferred tax assets	48.7	65.3
Total non-current assets	886.1	858.3
Total assets	1,673.7	1,638.4
Liabilities		
Current liabilities:		
Accounts payable	8.2	7.0
Embedded derivatives	7.1	7.0
Accrued and other liabilities (see note 3)	62.1	88.1
Finance lease liabilities	4.8	2.7
Current tax liabilities	17.0	18.8
Deferred revenue	141.3	156.7
Total current liabilities	240.5	280.3
Non-current liabilities:		
Accrued and other liabilities	1.8	2.6
Finance lease liabilities	3.3	1.5
Deferred tax liabilities	–	0.1
Deferred revenue	47.2	42.5
Total non-current liabilities	52.3	46.7
Total liabilities	292.8	327.0
Net assets	1,380.9	1,311.4
Capital and reserves attributable to owners of the Company		
Share capital	0.7	0.7
Share premium account	18.2	18.1
Capital reserve	354.3	354.3
Share option reserve	61.4	61.4
Retained earnings	893.5	820.6
Cumulative translation adjustment	52.8	56.3
Total equity	1,380.9	1,311.4

ARM Holdings plc
First Quarter Results
Consolidated income statement – IFRS

	Quarter ended 31 March 2014 Unaudited £m	Quarter ended 31 March 2013 Unaudited £m
Revenues	186.7	170.3
Cost of revenues	(8.8)	(10.2)
Gross profit	<u>177.9</u>	<u>160.1</u>
Research and development	(52.1)	(49.2)
Sales and marketing	(23.1)	(21.7)
General and administrative	(26.4)	(24.3)
Total operating expenses	<u>(101.6)</u>	<u>(95.2)</u>
Profit from operations	76.3	64.9
Investment income	3.0	3.4
Share of results in joint venture	(1.3)	(1.2)
Profit before tax	<u>78.0</u>	<u>67.1</u>
Tax	(15.7)	(15.2)
Profit for the period	<u>62.3</u>	<u>51.9</u>
Earnings per share		
Basic and diluted earnings	62.3	51.9
Number of shares (millions)		
Basic weighted average number of shares	1,405.2	1,389.7
Effect of dilutive securities: Share options and awards	11.5	15.1
Diluted weighted average number of shares	<u>1,416.7</u>	<u>1,404.8</u>
Basic EPS (pence)	4.4	3.7
Diluted EPS (pence)	4.4	3.7
Diluted earnings per ADS (cents)	22.0	16.8

All activities relate to continuing operations.

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

ARM Holdings plc
Consolidated statement of comprehensive income - IFRS

	Quarter ended 31 March 2014 Unaudited	Quarter ended 31 March 2013 Unaudited
	£m	£m
Profit for the period	62.3	51.9
Other comprehensive income:		
Currency translation adjustment*	(3.5)	41.6
Other comprehensive (loss)/income for the period	(3.5)	41.6
Total comprehensive income for the period	58.8	93.5

*This item may be reclassified to income statement if certain conditions are met.

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

	Share capital £m	Share premium account £m	Capital reserve* £m	Share option reserve** £m	Retained earnings £m	Cumulative translation adjustment £m	Total £m
At 1 January 2013 (audited)	0.7	12.2	354.3	61.4	703.3	74.2	1,206.1
Profit for the period	–	–	–	–	51.9	–	51.9
Other comprehensive income:							
Currency translation adjustment	–	–	–	–	–	41.6	41.6
Total comprehensive income for the period	–	–	–	–	51.9	41.6	93.5
Shares issued on exercise of share options and awards	–	2.4	–	–	–	–	2.4
Credit in respect of employee share schemes	–	–	–	–	12.5	–	12.5
Movement on tax arising on share options and awards	–	–	–	–	4.1	–	4.1
	–	2.4	–	–	16.6	–	19.0
At 31 March 2013 (unaudited)	0.7	14.6	354.3	61.4	771.8	115.8	1,318.6
At 1 January 2014 (audited)	0.7	18.1	354.3	61.4	820.6	56.3	1,311.4
Profit for the period	–	–	–	–	62.3	–	62.3
Other comprehensive loss:							
Currency translation adjustment	–	–	–	–	–	(3.5)	(3.5)
Total comprehensive income/(loss) for the period	–	–	–	–	62.3	(3.5)	58.8
Shares issued on exercise of share options and awards	–	0.1	–	–	–	–	0.1
Credit in respect of employee share schemes	–	–	–	–	13.8	–	13.8
Movement on tax arising on share options and awards	–	–	–	–	(3.2)	–	(3.2)
	–	0.1	–	–	10.6	–	10.7
At 31 March 2014 (unaudited)	0.7	18.2	354.3	61.4	893.5	52.8	1,380.9

* **Capital reserve.** In 2004, the premium on the shares issued 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 has been classified as a capital reserve to reflect the nature of the original credit to equity arising on acquisition. This capital reserve is clearly distinguished from the share premium arising on share issues.

** **Share option reserve.** The share option reserve represents the fair value of options granted on the acquisition of Artisan Components Inc. in 2004.

Notes to the Financial Information

(1) Basis of preparation

International Financial Reporting Standards

The financial information prepared in accordance with the Group's IFRS accounting policies comprises the consolidated balance sheets as of 31 March 2014 and 31 December 2013, consolidated income statements, consolidated statements of comprehensive income and consolidated statements of changes in shareholders' equity for the quarters ended 31 March 2014 and 2013, together with related notes. This financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority. In preparing this financial information management has used the principal accounting policies as set out in the Group's annual financial statements for the year ended 31 December 2013.

(2) Share-based payment costs and acquisition-related expenses

Included within the consolidated income statement for the quarter ended 31 March 2014 are total share-based payment costs (including related payroll taxes) of £15.1 million (2013: £18.4 million), allocated £0.5 million (2013: £0.5 million) in cost of revenues, £9.8 million (2013: £10.5 million) in research and development costs, £2.6 million (2013: £3.3 million) in sales and marketing costs and £2.2 million (2013: £4.1 million) in general and administrative costs.

(3) Accrued and other liabilities

Included within accrued and other liabilities at 31 March 2014 are £8.9 million (31 December 2013: £15.1 million) relating to the provision for payroll taxes on share awards and £4.9 million (31 December 2013: £26.5 million) relating to employee bonus and sales commission provisions.

(4) Financial contingencies

It is common industry practice for licensors of technology to offer to indemnify their licensees for loss suffered by the licensee in the event that the technology licensed is held to infringe the intellectual property of a third party. Consistent with such practice, the Group provides such indemnification to its licensees. The obligation for the Group to indemnify its licensees is subject to certain provisos and is usually contingent upon a third party bringing an action against the licensee alleging that the technology licensed by the Group to the licensee infringes such third party's IP rights. The indemnification obligations typically survive any termination of the licence and will continue in perpetuity.

The Group does not provide for any such indemnities unless it has received notification from the other party that they are likely to invoke the indemnity. A provision is made if both of the following conditions are met: (i) information available prior to the issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements; and (ii) the amount of the liability can be reasonably estimated. Any such provision is based upon the directors' estimate of the fair value of expected costs of any such claim.

At present, the Group is not a party in any legal proceedings in which the directors believe that it is probable that the resolution of such proceedings will result in a material liability for the Group. Currently, there are legal proceedings against some of the Group's licensees in which it is asserted that certain of the Group's technology infringes third-party patents, but in each of those proceedings the Group either presently has no obligation to indemnify, because certain preconditions to indemnification have not been satisfied by such licensees, or to the extent that there is any present obligation to indemnify, the Group does not believe that it is probable that the resolution of such proceedings will result in a material liability for the Group. If preconditions to indemnification are satisfied then an indemnification obligation may arise which could result in a material liability for the Group.

(5) Non-GAAP measures

The following non-GAAP measures, including reconciliations to the IFRS measures, have been used in this earnings release. These measures have been presented as they allow a clearer comparison of operating results that exclude intangible amortisation, acquisition-related charges, share-based payment costs and share of results in joint venture. Full reconciliations of Q1 2014 and Q1 2013 are shown in notes 5.11 and 5.12. All figures in £'million unless otherwise stated.

	(5.1)	(5.2)	(5.3)	(5.4)
	Q1 2014	Q1 2013	Q4 2013	FY 2013
Revenues	186.7	170.3	189.1	714.6
Revenues (\$m)	305.2	263.9	302.9	1,117.7
ARM's effective exchange rate (\$/£)	1.63	1.55	1.60	1.56
Summary normalised figures				
Gross margin	95.6%	94.3%	95.4%	94.8%
Operating expenses	84.3	74.6	88.1	326.5
Profit from operations	94.1	86.0	92.3	350.9
Operating margin	50.4%	50.5%	48.8%	49.1%
Profit before tax	97.1	89.4	95.5	364.0
Earnings per share (diluted)	5.60p	5.31p	5.31p	20.59p
Cash (net of accrued interest)	735.6	562.4	706.3	706.3
Normalised cash generation	40.1	58.7	77.9	344.5

	(5.5)	(5.6)
	31 March 2014	31 December 2013
Cash and cash equivalents	39.0	43.8
Short-term deposits	537.8	544.1
Long-term deposits	164.6	125.6
Less: Interest accrued	(5.8)	(7.2)
Total net cash	735.6	706.3

	(5.7)	(5.8)	(5.9)	(5.10)
	Q1 2014	Q1 2013	Q4 2013	FY 2013
Cash at end of period (as above)	735.6	562.4	706.3	706.3
Less: Cash at beginning of period	(706.3)	(520.2)	(670.5)	(520.2)
Add back: Cash outflow from investments and acquisitions (net of cash acquired)	1.9	3.4	13.3	25.6
Add back: Cash outflow from investment in joint venture	–	–	–	3.7
Add back: Cash outflow from acquisition-related charges	0.6	1.3	0.5	4.6
Add back: Cash outflow from payment of dividends	–	–	29.4	68.9
Add back: Cash outflow from share-based payroll taxes	7.5	13.5	0.3	16.3
Add back: Cash outflow from payments related to Linaro	0.9	0.8	0.9	3.5
Add back: Cash outflow from IP indemnity and similar charges	–	–	–	41.8
Less: Cash inflow from exercise of share options	(0.1)	(2.5)	(2.3)	(6.0)
Normalised cash generation	40.1	58.7	77.9	344.5

(5.11) Normalised income statement for Q1 2014

	Normalised £m	Share- based payments £m	Normalised incl share- based payments £m	Intangible amortisa- tion £m	Acquisition- related charges £m	Share of results in joint venture £m	IFRS £m
Revenues	186.7	–	186.7	–	–	–	186.7
Cost of revenues	(8.3)	(0.5)	(8.8)	–	–	–	(8.8)
Gross profit	178.4	(0.5)	177.9	–	–	–	177.9
Research and development	(39.8)	(9.8)	(49.6)	(1.9)	(0.6)	–	(52.1)
Sales and marketing	(20.4)	(2.6)	(23.0)	(0.1)	–	–	(23.1)
General and administrative	(24.1)	(2.2)	(26.3)	–	(0.1)	–	(26.4)
Total operating expenses	(84.3)	(14.6)	(98.9)	(2.0)	(0.7)	–	(101.6)
Profit from operations	94.1	(15.1)	79.0	(2.0)	(0.7)	–	76.3
Investment income	3.0	–	3.0	–	–	–	3.0
Share of results in joint venture	–	–	–	–	–	(1.3)	(1.3)
Profit before tax	97.1	(15.1)	82.0	(2.0)	(0.7)	(1.3)	78.0
Tax	(17.7)	1.2	(16.5)	0.6	0.2	–	(15.7)
Profit for the period	79.4	(13.9)	65.5	(1.4)	(0.5)	(1.3)	62.3
Earnings per share (assuming dilution)							
Shares outstanding (millions)	1,416.7		1,416.7				1,416.7
Earnings per share – pence	5.60		4.62				4.39
ADSs outstanding (millions)	472.2		472.2				472.2
Earnings per ADS – cents	28.0		23.1				22.0

(5.12) Normalised income statement for Q1 2013

	Normalised	Share-based payments	Normalised incl share-based payments	Intangible amortisation	Acquisition-related charges	Share of results in joint venture	IFRS
	£m	£m	£m	£m	£m	£m	£m
Revenues	170.3	–	170.3	–	–	–	170.3
Cost of revenues	(9.7)	(0.5)	(10.2)	–	–	–	(10.2)
Gross profit	160.6	(0.5)	160.1	–	–	–	160.1
Research and development	(36.6)	(10.5)	(47.1)	(1.4)	(0.7)	–	(49.2)
Sales and marketing	(18.3)	(3.3)	(21.6)	(0.1)	–	–	(21.7)
General and administrative	(19.7)	(4.1)	(23.8)	–	(0.5)	–	(24.3)
Total operating expenses	(74.6)	(17.9)	(92.5)	(1.5)	(1.2)	–	(95.2)
Profit from operations	86.0	(18.4)	67.6	(1.5)	(1.2)	–	64.9
Investment income	3.4	–	3.4	–	–	–	3.4
Share of results in joint venture	–	–	–	–	–	(1.2)	(1.2)
Profit before tax	89.4	(18.4)	71.0	(1.5)	(1.2)	(1.2)	67.1
Tax	(14.8)	(1.2)	(16.0)	0.4	0.4	–	(15.2)
Profit for the period	74.6	(19.6)	55.0	(1.1)	(0.8)	(1.2)	51.9
Earnings per share (assuming dilution)							
Shares outstanding (millions)	1,404.8		1,404.8				1,404.8
Earnings per share – pence	5.31		3.92				3.69
ADSs outstanding (millions)	468.3		468.3				468.3
Earnings per ADS – cents	24.2		17.8				16.8

Notes

The results shown for Q1 2014, Q1 2013, and Q4 2013 are unaudited. The results shown for FY 2013 are audited. The condensed consolidated financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts of the Company in respect of the financial year ended 31 December 2013 were approved by the Board of directors on 5 March 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph nor any statement under Section 498 of the Companies Act 2006.

The results for ARM for Q1 2014 and previous quarters as shown reflect the accounting policies as stated in Note 1 to the financial statements in the Annual Report and Accounts filed with Companies House in the UK for the fiscal year ended 31 December 2013 and in the Annual Report on Form 20-F for the fiscal year ended 31 December 2013.

This document contains forward-looking statements as defined in section 102 of the Private Securities Litigation Reform Act of 1995. These statements are subject to risk factors associated with the semiconductor and intellectual property businesses. When used in this document, the words “anticipates”, “may”, “can”, “believes”, “expects”, “projects”, “intends”, “likely”, similar expressions and any other statements that are not historical facts, in each case as they relate to ARM, its management or its businesses and financial performance and condition are intended to identify those assertions as forward-looking statements. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a number of variables, many of which are beyond our control. These variables could cause actual results or trends to differ materially and include, but are not limited to: failure to realize the benefits of our recent acquisitions, unforeseen liabilities arising from our recent acquisitions, price fluctuations, actual demand, the availability of software and operating systems compatible with our intellectual property, the continued demand for products including ARM’s intellectual property, delays in the design process or delays in a customer’s project that uses ARM’s technology, the success of our semiconductor partners, loss of market share and industry competition, exchange and currency fluctuations, any future strategic investments or acquisitions, rapid technological change, regulatory developments, ARM’s ability to negotiate, structure, monitor and enforce agreements for the determination and payment of royalties, actual or potential litigation, changes in tax laws, interest rates and access to capital markets, political, economic and financial market conditions in various countries and regions and capital expenditure requirements.

More information about potential factors that could affect ARM’s business and financial results is included in ARM’s Annual Report on Form 20-F for the fiscal year ended 31 December 2013 including (without limitation) under the captions, “Risk Factors” (on pages 4 to 12) which is on file with the Securities and Exchange Commission (the “SEC”) and available at the SEC’s website at www.sec.gov.

About ARM

ARM designs the technology that lies at the heart of advanced digital products, from wireless, networking and consumer entertainment solutions to imaging, automotive, security and storage devices. ARM’s comprehensive product offering includes 32-bit RISC microprocessors, graphics processors, video engines, enabling software, cell libraries, embedded memories, high-speed connectivity products, peripherals and development tools. Combined with comprehensive design services, training, support and maintenance, and the company’s broad Partner community, they provide a total system solution that offers a fast, reliable path to market for leading electronics companies. More information on ARM is available at <http://www.arm.com>.

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