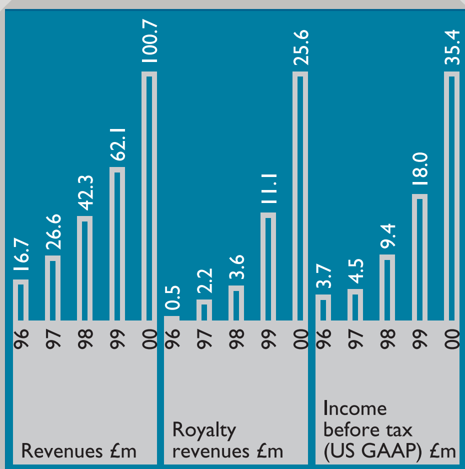
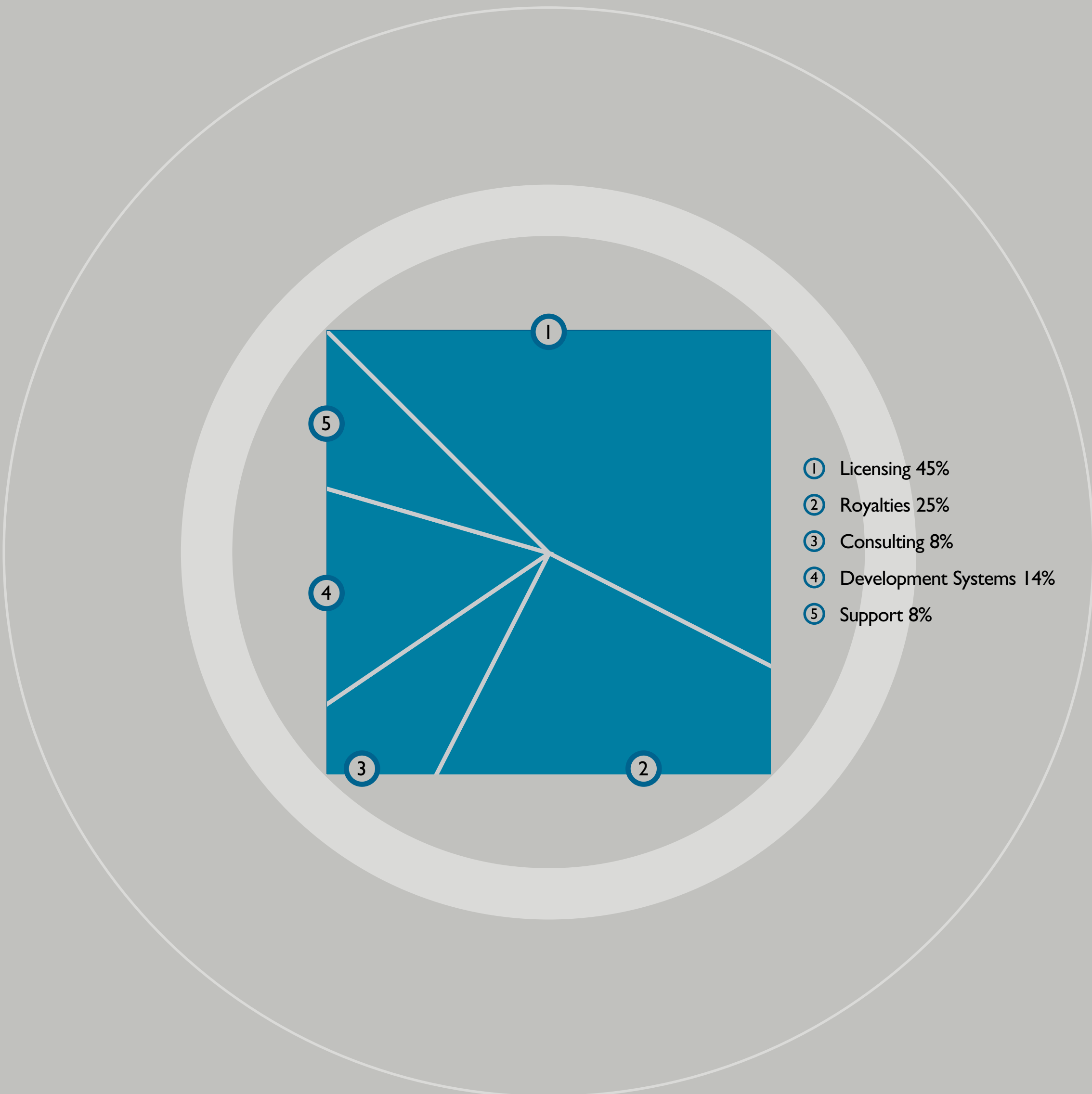
ARM®/Report and Accounts 2000.
At the Core of Future Technology.

ARM/The Core. ARM is at the core of future technology. Today we are in the midst of a digital revolution that is changing and reshaping all our lives. Its effects are comparable to the introduction of electricity over a century ago or steam a hundred years before that. Advanced digital technology is making the products we use every day more intelligent, more capable, more efficient and more affordable. It is extending the Internet beyond the PC into cars, home appliances, mobile phones, MP3 players and digital TVs. It is also enabling us to stay in touch with our friends and families wherever they may be using wireless technology.

Today, the world's leading 32-bit RISC architecture comes from ARM. ARM's processor designs have been licensed by over 50 semiconductor Partners and, last year alone, were used by them in over 400 million chips. That's more than ten chips sold every second.

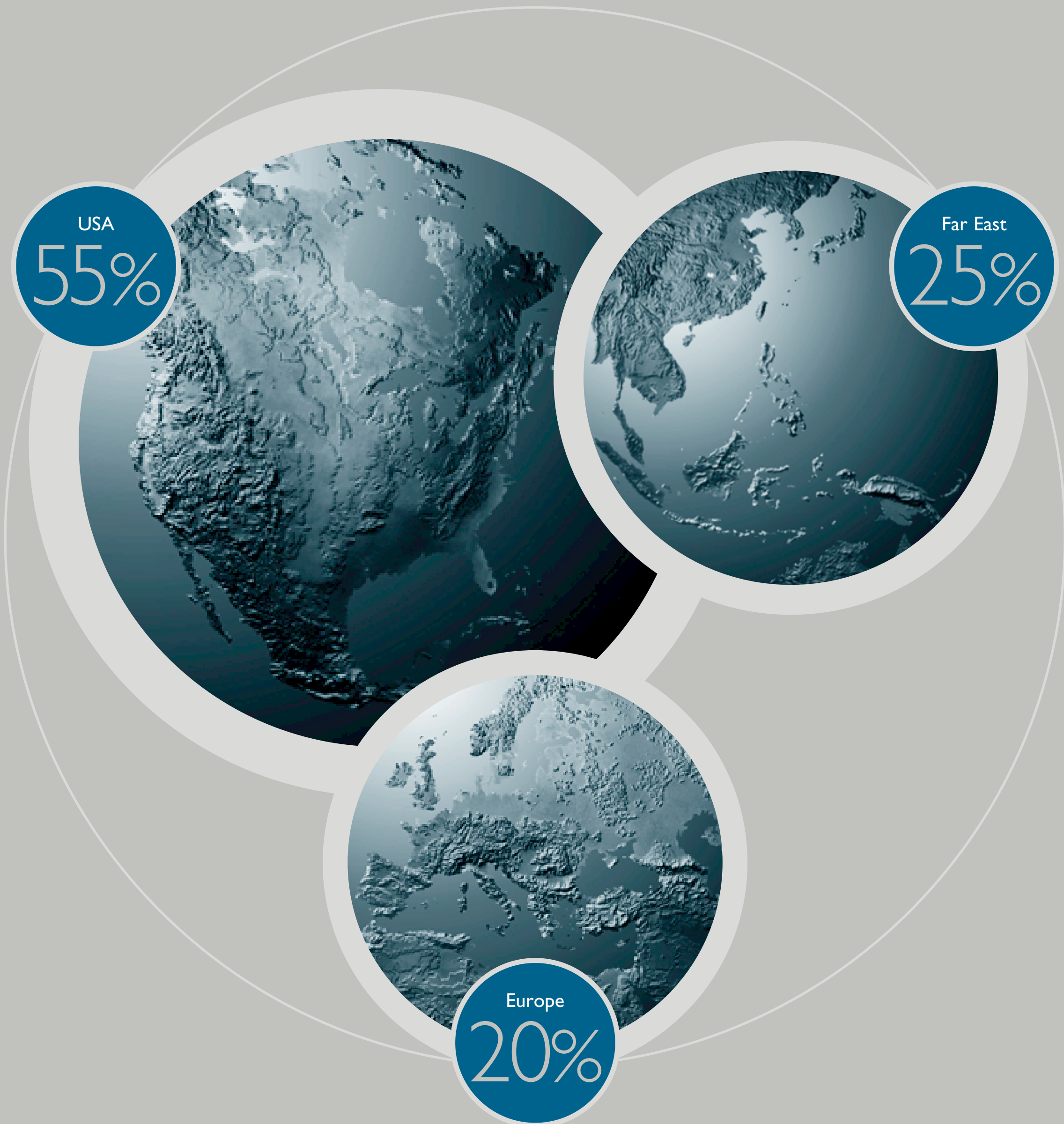
But the revolution is only just beginning and still has a long, long way to run. ARM is at the forefront of digital developments and new and innovative processor designs will ensure that ARM's position will remain at the core of future technology.


16.7
26.6
42.3
62.1
100.7
96
97
98
99
00
Revenues £m
0.5
2.2
3.6
11.1
25.6
96
97
98
99
00
Royalty revenues £m
3.7
4.5
9.4
18.0
35.4
96
97
98
99
00
Income before tax (US GAAP) £m



- Revenues up 62% to £100.7 million (1999: £62.1 million)
- Income before taxation (US GAAP) up 97% to £35.4 million (1999: £18.0 million)
- More than doubling of unit shipment growth by our Partners

ARM/Geographical Revenue by Market Destination.



US offices
Austin, Texas
La Jolla, San Diego, California
Los Gatos, California
Northborough, Massachusetts
Redmond, Washington
Walnut Creek, California

European offices
Blackburn, UK
Cambridge, UK
Maidenhead, UK
Sheffield, UK
Montigny le Bretonneux, Paris, France
Sophia Antipolis, France
Munich, Germany
Kfar Saba, Tel Aviv, Israel

Far Eastern offices
Seoul, Korea
Taipei, Taiwan
Shin-Yokohama, Japan

ARM/Chairman and Chief Executive's Review. 2000 has been another excellent year for ARM's business development, with a 62% growth in revenues to almost £101 million and pre-tax profit growth of 97% when prepared under US GAAP. Once again, I am delighted to thank the people who have made this possible by their hard work, teamwork and creativity, including all of our employees and the many people we work with at our Partners. There have been many achievements during 2000, but there are a few trends I would like to highlight: the continuing high growth in our development systems sales; the significant increase in unit shipments and royalty revenues; and finally the introduction of our 'per use' license model for smaller companies.

Sales of our development systems solutions, which are usually to the end-users of our technology rather than our semiconductor Partners, grew to account for 14% of total revenues at £13.6 million, compared to £5.6 million in 1999. This indicates a healthy level of design activity by our end customers and gives us confidence about future unit shipments and royalty revenues. These sales cover a broad range of end markets and geographic regions.

Licensing revenues continued to grow in 2000, with leading companies such as Motorola signing a comprehensive series of agreements, and existing Partners licensing many new products from us. Of particular note was Intel's announcement of the ARM Powered™ XScale™ architecture, along with demonstrations of processors running at clock speeds in excess of 1GHz. We also introduced our 'per use' license model developed to enable smaller chip design companies to use ARM® technology through a lower cost of entry license. This has proved very popular with six companies joining the programme during the year.

Unit shipments continue to grow, and for the four quarters to September 2000, for which we have complete data, 367 million units were shipped by our Partners compared to 131 million in the corresponding period last year. We anticipate shipments for the calendar year of more than 400 million units compared to 182 million in 1999. To put this into perspective, more than ten ARM Powered devices were manufactured per second, on average last year.

Increasing range of end applications. The range of products using ARM technology continued to broaden during 2000, and we estimate that more than 50 million chips were shipped into the networking market for the four quarters to September. Royalty revenues are recognised one quarter in arrears and, analysed by revenue, 50% of royalty revenues in the fourth quarter (relating to unit shipments in Q3) were derived from non-wireless applications. Within this figure, networking applications such as DSL and cable modems accounted for approximately 28% of royalties, consumer products including set-top boxes and mini disc players approximately 13%, disk drive and storage applications 5%, and imaging products like digital cameras and printers 4%. Small shipments to the automotive and smartcard markets began in the year, but we estimate it will take some time for these volumes to become a significant proportion of our revenues.

Software support is very important for long-term market success and during the year Palm announced their intention to use the ARM architecture in future products and Symbian, Microsoft and Linux providers introduced new products that run on the ARM architecture.

Product development. 2000 was an exciting year for product development with the introduction of several new 'road map' developments, many addressing the non-wireless markets. In particular, we introduced our Jazelle™ Java™ extensions, to provide developers of wireless communications products, set-top boxes and other Internet-enabled devices with more power-efficient microprocessor solutions capable of running Java code up to eight times faster. We announced our SIMD (single instruction multiple data) extensions to address the market's need for advanced processing for audio/video applications. We also launched our SecurCore™ family for products requiring security features, including smartcard applications.

Acquisitions and new offices. We made three small acquisitions in 2000 to extend our research and development activities and enable us to better address some of our target end markets. In March we acquired the assets of Infinite Designs Limited, a system-on-chip design house in Sheffield, UK. In June, we completed the purchase of EuroMIPS Systems SAS, in Sophia Antipolis, France, a system house specialising in smartcard microprocessor technology. In September we purchased Allant Software Corporation, a developer of design tools based in Walnut Creek, California, specialising in innovative debug solutions. In each case, the acquisition has led to the establishment of a new ARM office, allowing us to tap into new geographical markets for highly qualified engineers, and further strengthen our links to our global customers. In addition to these new design centres, we have opened new sales offices in Taipei, Taiwan, Tel Aviv, Israel and San Diego, California.

Investments. Our strategy is to make small investments in companies where there is an opportunity to further the establishment of the ARM architecture. We invested £1.3 million in Parthus Technologies plc, a licensee of our technology, based in Dublin, just prior to its initial public offering in May. In June we invested £2.1 million in CoWare, Inc, a private company based in California, which markets tools to speed system-on-chip design. Finally in December, we invested £0.7 million in Cambridge Silicon Radio, a manufacturer of Bluetooth™ solutions.

We made one partial divestment during the year: under the terms of our original shareholder agreement, in March we sold three quarters of our equity investment in Palmchip Corporation for a profit of £0.5 million. Our shareholding in Palmchip is currently slightly less than 5%.

Legal action. In March, we filed a patent infringement lawsuit against picoTurbo Inc., a company based in California, asserting that certain of picoTurbo's microprocessors infringed three ARM patents. In June, the claim was amended to include four more patents. As an intellectual property company, it is our policy to vigorously defend our patent rights to ensure that we and our Partners obtain the full benefit of our investment. We are confident that we will be successful in our case against picoTurbo.

Board appointments. We have expanded considerably in the past year with a 40% increase in our headcount to 619 employees in eight countries. In October, to support a greater focus on the strategic development of the group, Jamie Urquhart, previously Chief Operating Officer, became our Chief Strategy Officer. We also strengthened the board with the appointment of two more executive directors. Warren East, previously Vice President of Operations, became Chief Operating Officer and Pete Magowan, previously Vice President of Worldwide Sales was appointed to the board as Executive Vice President, Sales and Marketing.

Outlook. 2001 has started well with several licensing agreements signed. Despite an anticipated slowdown in general economic activity in the United States and the Far East, demand for our products and services remains strong and we expect a further year of continued growth.

Robin Saxby. Chairman and Chief Executive Officer
8 February 2001

ARM/Board of Directors.

Robin Saxby(1) age 54
Chairman and Chief Executive Officer

Robin Saxby was involved in the founding of ARM and has served as Chairman and Chief Executive Officer since joining the Company full-time in February 1991. Prior to this, he worked for five years for European Silicon Structures SA (ES2), where he was Vice President of Northern Europe, Managing Director ES2 Limited and President of its USA affiliate US2. Between 1984 and 1986, he was Chief Executive Officer of Henderson Security Systems Limited and before that, spent 11 years with Motorola Semiconductors in a variety of sales, marketing and engineering management roles. Mr Saxby is a board member of a Belgian company, Sirius Communications NV, in which ARM is a small shareholder and was appointed to the board of Glotel plc as a non-executive director in April 1999. In 2000, he was awarded an honorary Doctorate D.Eng from Liverpool University. He was also appointed a visiting professor to the department of electronics where he received his B.Eng degree.

Jonathan Brooks(2) age 45
Chief Financial Officer and Director

Jonathan Brooks joined the Company as Chief Financial Officer in February 1995 and has served as a director since March 1998. Prior to this, he worked for the Accor Group SA where he held senior financial positions including Finance Director of LV Group Limited between 1989 and 1991, Group Management Accountant based in Paris, between 1991 and 1993, and Finance Director of WL Japan KK between 1993 and 1995. Between 1988 and 1989 he was Group Financial Controller of Frederick's Place Holdings plc. Previously, he had spent seven years with ICI plc in a variety of financial roles and two years with Grant Thornton Management Consultants. He holds a BSc (Economics) degree from the University of Wales, an MBA from the Manchester Business School, and is an Associate of the Chartered Institute of Management Accountants. He was appointed to the board of Aortech International plc as a non-executive director in February 2001.

Warren East(3) age 39
Chief Operating Officer and Director

Warren East has been with ARM since 1994. He started ARM's consulting business in September 1994 and served as Vice President Business Operations from February 1998. In October 2000 he was appointed to the board as Chief Operating Officer. Prior to joining ARM he was with Texas Instruments for 11 years and latterly managed TI's FPGA marketing in Europe. He holds an MA from Oxford University in Engineering Science and an MBA from Cranfield School of Management.

Peter Magowan(4) age 33
Executive Vice President Sales and Marketing and Director

Peter Magowan joined ARM shortly after its inception and has held a variety of sales, marketing and business development roles. From 1996 to October 1999 he served as Vice President, European Sales and was appointed Vice President, Worldwide Sales in October 1999. In October 2000 he was appointed to the board as Executive Vice President Sales and Marketing. He joined ARM in 1990 from SGS Thomson Microelectronics, where he worked in a variety of microprocessor marketing roles. He holds a degree in Electronics and Electrical Engineering from UMIST. He was appointed to the board of Amphion Semiconductor Ltd as a non-executive director in September 2000.

James Urquhart(5) age 44
Chief Strategy Officer and Director

James Urquhart has been with ARM since its inception, and was one of the founding engineers of the ARM microprocessor. He served as Executive Vice President Sales and Marketing from 1996 to February 1998 and as Chief Operating Officer from March 1998 to October 2000 when he was appointed Chief Strategy Officer. He was appointed to the board of the Company in March 1998. He joined Acorn in 1984 as a VLSI Design Engineer to work on the ARM Program and in 1985 became Manager of the VLSI Design Group at Acorn. Prior to that he was with Plessey Research, where he worked on analogue and digital developments utilising high speed CMOS, Bipolar and Gallium Arsenide technologies. He holds a BSc from Bath University in Physics and Physical Electronics. He was appointed to the board of nCipher plc as a non-executive director in January 2000.

Peter Cawdron(6) age 57
Independent Non-Executive Director

Peter Cawdron was appointed to the board of the Company in March 1998 as an independent non-executive director. From 1983 to 1998 he worked for Grand Metropolitan PLC where he served as Group Strategy Development Director from 1987 and Director of Planning before that. From 1977 to 1983, he was Chief Financial Officer and Director of D'Arcy-MacManus & Masius Worldwide, Inc. Prior to that, he spent seven years at S.G. Warburg & Co., Ltd as a member of the Corporate Finance Department and as Senior General Manager from 1976. From 1961 to 1970 he worked at Peat, Marwick, Mitchell & Co, where he qualified as a Chartered Accountant in 1966. Mr Cawdron also serves as a non-executive director of Compass Group plc, The Capita Group plc, Christian Salvesen plc, Capital Radio plc, COIF Nominees Ltd, Express Dairies plc, The Girls' Education Company Ltd, Granada Compass plc, Johnston Press plc, Lupus Capital plc, Private Investor Capital Ltd, Prospect Digital Media Ltd and Ragged Bears Ltd.

Doug Dunn(7) age 56
Independent Non-Executive Director

Doug Dunn is an independent non-executive director and was appointed to the board of the Company in December 1998. He is currently President and Chief Executive Officer of ASM Lithography Holding N.V. From 1993 to 1998 he worked for Royal Philips Electronics N.V. initially as Chairman and Chief Executive Officer of the Semiconductor division and a member of the Philips Group Management Committee. In 1996 he was appointed Chairman and Chief Executive Officer of the Consumer Electronics division and a member of the Philips board. From 1980 to 1993 Mr Dunn was Managing Director of the Plessey and GEC Semiconductor divisions. Prior to this from 1970 he worked for Motorola in several engineering and management functions. He qualified in Electrical Engineering with an HNC from Sheffield University and in 1992 was awarded an OBE by Her Majesty Queen Elizabeth for services to the Electronics Industry. He is also a non-executive director of Sendo Holdings plc.

Lawrence Tesler(8) age 55
Independent Non-Executive Director

Lawrence Tesler is president of Stagecast Software Inc., a privately held company in California. From 1980 to 1997, he worked for Apple Computer, Inc., where he served as Vice President and Chief Scientist. Between 1963 and 1980, he was on the staff of the Xerox Palo Alto Research Center (PARC), the president of a software consulting firm, and a research associate at Stanford University, where he received a B.S. degree in 1965. Mr Tesler was a member of the board of the Company from its founding until August 1997 and rejoined the board as a non-executive director in March 1998.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ARM POWERED

ARM/Financial Review. In order to comply with applicable UK and US securities regulations, ARM Holdings plc prepares financial statements under both UK and US generally accepted accounting principles (GAAP) both of which are included in this report. The financial statements prepared under UK GAAP can be found on pages 40 to 63 and under US GAAP on pages 72 to 88. A reconciliation of the differences between the two sets of GAAP can be found in note 30 of the UK GAAP financial statements. The following review is based on our UK financial statements.

Revenues. Total revenues for the year ended 31 December 2000 amounted to £100.7 million, an increase of 62% from total revenues of £62.1 million in the year ended 31 December 1999. The geographical spread of sales was similar to 1999, with approximately one half being generated from the United States, one quarter from the Far East, and the balance from Europe.

The largest growth in revenues was from the sale of development systems, which increased by 145% to £13.6 million compared to £5.6 million in 1999. The release of the ARM Developer Suite™, a new software toolkit, at the end of 1999 made a significant contribution to this increase. Strong customer demand for other development systems products further improved revenues. Royalties also grew impressively by 130% to £25.6 million in 2000 from £11.1 million a year previously with an increasing range of products being launched into the varied end markets where our technology is used.

Licensing revenues grew by 35% to £45.3 million compared to £33.5 million in 1999. 14 new licensees were signed during the year bringing the total number to 50. Four of these took licenses at the ARM7™ core technology level, two licensed at the ARM9™ level, and six took 'per use' licenses which enables smaller chip design companies to use the group's technology through a lower cost of entry license. Two foundries based in South-East Asia, TSMC and UMC, became licensees with rights to manufacture ARM-core based microprocessors to these 'per use' licensees. Ten existing Partners upgraded to ARM9 family licenses bringing the total number with access to ARM9 core technology to 23. A further 15 licenses were sold to existing Partners for 'derivative' family products. Finally, in addition to their implementation licenses, Motorola took an architecture license that gives them rights to tailor ARM technology to their own manufacturing processes.

The composition of licensing revenues changed during the year with newer technology forming a larger share of the total. The sale of ARM7-core technology fell from 45% in 1999 to 36% in 2000, while revenues from ARM9 technology rose from 27% in 1999 to 31% in 2000. The balance was made up of the licensing of architectures, ARM10™ technology, and peripheral technologies including models and embedded trace modules. The licensing of applications software grew from £0.6 million in 1999 to more than £1.7 million in 2000. This reflected growing demand for the group's increasing range of applications software products.

Service revenues, which include consulting services and revenues from support, maintenance and training, grew to £16.2 million in 2000, representing 16% of total revenues compared to £12.0 million or 19% of revenues in 1999. Consulting revenues grew by 26% to £8.2 million in 2000 compared to £6.5 million in 1999 while revenues from support, maintenance and training grew by 46% to £8.0 million from £5.5 million. The relatively low growth rate for consulting represented a conscious shift towards re-allocating resource to intellectual property generation and higher margin licensing opportunities.

Gross margins. Gross margins for 2000 were 88%, up four points from 84% in 1999. The improvement in gross margins was due to a reduction in the costs of enabling certain third party operating systems to run on the ARM architecture.

Operating expenses. As an intellectual property business, approximately two thirds of our costs are employee related. During 2000 headcount grew by 40% from 443 to 619 but operating expenses excluding goodwill grew in total by 59% from £35.7 million to £56.6 million. Apart from the growth in headcount, the main reason for this increase included relatively higher growths in marketing expenditure, legal costs relating to the patent infringement case against picoTurbo, and facilities costs, reflecting the cost of new and expanded office accommodation in Cambridge.

Research and development expenses, excluding goodwill, increased from £16.9 million or 27% of revenues in 1999 to £26.2 million or 26% of revenues in 2000. The continuing increase in research and development expenditure demonstrates the group's commitment to invest in developing next generation products. Sales, marketing and general and administrative costs grew from £18.8 million or 30% of revenues in 1999 to £30.4 million or 30% of revenues in 2000. Goodwill of £1.3 million was charged to the profit and loss account in 2000, reflecting the three acquisitions made during the year together with one acquisition in 1999. Goodwill on these acquisitions is being amortised over periods of up to three years and has been determined with respect to the period over which the Company expects to benefit from the intellectual property and expertise acquired.

Operating margins. Operating margins increased between 1999 and 2000 from 27% in 1999 to 31% in 2000. This improvement was primarily as a result of the higher royalty revenues received during the year. Operating margins excluding royalties fell by slightly more than 3% between 1999 and 2000 to 7%, reflecting the increase in the operating costs of the business.

Interest. Interest receivable rose from £2.3 million in 1999 to £3.9 million in 2000 reflecting the group's increasing cash and short term investment balances that rose from £51.8 million in 1999 to £75.3 million at 31 December 2000.

Earnings and taxation. For the year ended 31 December 2000, profit before tax was £35.5 million or 35% of revenues compared to £18.8 million or 30% of revenues in the year ended 31 December 1999.

The group's taxation rate increased from 9% in 1999 to 14% in 2000. The low taxation rate in both years was primarily due to the tax savings resulting from contributions to the Company's Qualifying Employee Share Ownership Trust (QUEST), set up to acquire new shares in the Company for the benefit of employees and directors of the group. Contributions to the QUEST saved £4.4 million of tax in 1999 and £5.3 million in 2000.

Fully diluted earnings per share for the year ended 31 December 2000 were 2.9 pence compared to 1.7 pence for the year ended 31 December 1999.

Balance sheet and cash flow. Net assets rose from £67.8 million in 1999 to £101.6 million in 2000. Trade debtors rose from £13.7 million in 1999 to £18.9 million in 2000, reflecting higher revenues in 2000. The group's overall cash and short term investments increased from £51.8 million to £75.3 million. £6.6 million was spent on the purchase of computers and software and £4.7 million on leasehold improvements related to the fitting out of new office space in the UK, US and Japan. £4.1 million was spent on trade investments in Parthus Technologies plc, CoWare, Inc, and Cambridge Silicon Radio Limited. £2.8 million was spent on intangible assets and £3.4 million on the acquisitions of Infinite Designs Limited, EuroMIPS Systems SAS and Allant Software Corporation.

Jonathan Brooks. Chief Financial Officer
8 February 2001

ARM/Review.

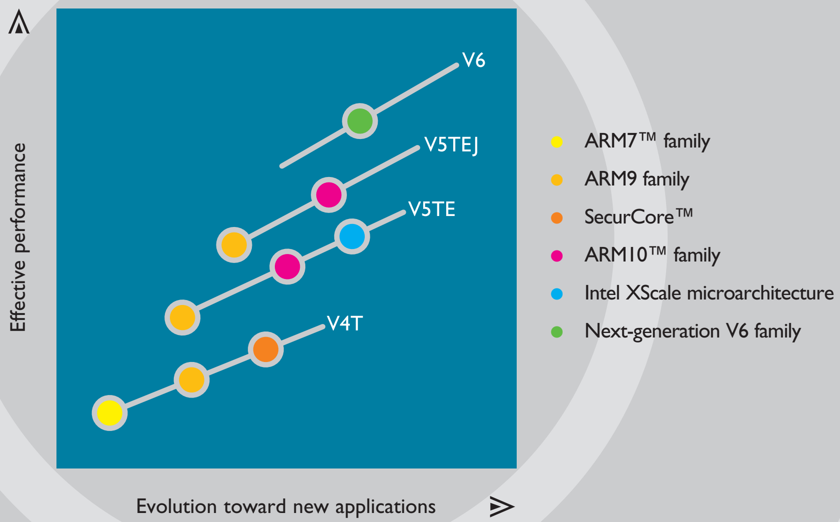
At the Core of Future Technology.

ARM/The Architecture Evolution. ARM-designed architecture stands proudly at the core of future technology. ARM cores are now the world's most popular RISC architecture, and have been used in over 400 million chips shipped by our global Partners in the year 2000 alone. Today we are investing in the next generation of processor designs which will take ARM cores into many more exciting end-products.

The ARM CPU roadmap is built upon the foundations of ARM's instruction set architecture, which defines how every software program is compiled and executed. ARM has carefully evolved the architecture, adding extensions, delivering new features and performance levels, while preserving backward compatibility. For example the ARM V4T architecture, used in the ARM7T™ and ARM9T™ families contains the ARM Thumb® extensions, which dramatically reduce code size and lower system costs. This ARM innovation enabled systems engineers to use fewer memory chips, and proved particularly important to designers of digital mobile wireless devices and PDAs.

Evolution is a continuous process, however. It's just that in the semiconductor industry, timescales are getting shorter and shorter. So, in 1999, ARM built upon its very successful technology and introduced its V5TE architecture, which implements special signal processing instructions and is used in the ARM9E™ core family and the Intel® XScale™ microprocessor architecture. These 'E' extensions, which were pioneering the way forward, have enabled designers of real-time control and communications systems to use a single processor for both the control and signal processing functions, rather than two separate ones, saving both design time and manufacturing cost. This ARM innovation has been a key benefit for designers of hard disk drives, motor control systems, and automotive applications.

In October 2000, ARM announced Jazelle™ for Java™ applications, and new SIMD extensions for multimedia which will form part of ARM's next generation V6 architecture. Jazelle and SIMD are set to power the next generation of mobile communications and entertainment products, providing end-users with new levels of device functionality and performance. ARM is now developing cores targeted at specific applications, to better serve its customers and their end-equipment markets. Those markets are growing fast and can be divided into eight customer facing end-equipment markets, namely Automotive, Consumer Entertainment, Imaging, Industrial, Networking, Secure, Storage and Wireless. The potential in each of these areas is huge, and ARM is differentiating both its products and its business activity to address them all.


V6
V5TEJ
V5TE
V4T
Effective performance
Evolution toward new applications
ARM7™ family
ARM9 family
SecurCore™
ARM10™ family
Intel XScale microarchitecture
Next-generation V6 family

ARM/At the Core of Future Technology.

ARM is growing, and growing fast. Revenues increased by 60% in 1998, 47% in 1999 and 62% in the current year. But excellent as those figures are, they are purely historic, and in today's fast moving markets, ARM must remain focused on the future, rather than the past, if it is to continue to be successful.

ARM has established a global presence, at the core of future technology developments. To maintain and develop this position, ARM must continue to work even more closely with its global community of Partners, who, in turn, lean heavily on ARM's expertise and ideas to develop the digital electronic products of tomorrow. To ensure that ARM continues to develop its products and services to meet the needs of the rapidly moving marketplace, the Company has, in the past year, refined its organisation to focus on eight distinct end-equipment markets.

This new focus has been done in a way that most efficiently uses the strengths that ARM has assembled within the Company. By building teams that incorporate expertise in a range of technologies, from intellectual property (IP) solutions and application software to development tools and support services, the Company is able to address key markets where a more focused approach will have the greatest effect. The digital electronic marketplace is so new, so huge, and expanding so fast, that it is necessary for a company like ARM to tailor its offerings to maximise its industry-proven expertise.

The distinct end markets currently focused on by ARM are all high-growth areas that can be addressed by the high-performance, efficient RISC microprocessor technologies that ARM has built its reputation on: Automotive, Consumer Entertainment, Imaging, Industrial, Networking, Secure, Storage, Wireless.

Automotive. In Automotive, ARM Powered® cores can be found at the heart of in-car entertainment systems, in-car safety devices, navigation systems and diagnostic equipment. This is a market that is developing strongly, and with many new innovations being enabled by advanced electronic devices, is an ideal application of ARM's high-performance, low-cost solutions. For example, to improve the safety of airbag and other restraint systems, more computing power is necessary to enable the deployment of the restraining device to be tailored to the size, weight and position of the vehicle occupant. This type of system improvement is driving the automotive market from 8-bit microprocessors to 32-bit solutions, making it an ideal market for ARM technology.

Consumer Entertainment. In Consumer Entertainment, ARM's expertise enables solutions for almost every digital electronic product one can think of for the home entertainment market, including digital TVs, video technology, DVD solutions and digital audio players which support standards such as MP3. The widespread use of industry-standard software such as OpenTV and WindowsCE, which support the ARM architecture, makes the Company's technology a popular choice in this market.

Imaging. ARM's expertise in Imaging extends into a wide range of products that in some way manipulate and/or replicate images, including digital cameras, inkjet printers, scanners, fax machines and photocopiers. ARM recognises that high performance is essential for rapid image processing, enhancement, compression and decompression, while in battery operated and low-cost consumer items, reduced power consumption is key to extending battery life for portable products and reducing heat and cost in desktop scanners and printers.

Industrial. The Industrial end market covers everything from production automation equipment to energy-efficient domestic appliances. This market tends to use standard "off-the-shelf" devices available from semiconductor suppliers and distributors rather than the more customised devices found in other markets. ARM's Partners are creating new standard parts containing ARM cores and system-on-chip technology to serve this market.

Networking. In Networking, ARM cores can be found in an extensive range of products including ADSL modems and chipsets, cable modems, ethernet cards, routers, switches and wireless local area networking (LAN) solutions. The sheer variety of networking-related end-equipment makes standards important but difficult to achieve in complex system-on-chip (SoC) solutions. The standardisation of the ARM architecture across so many semiconductor suppliers makes it an ideal choice for this market.

Secure. The Secure market is concerned with the application of security, whether it is for banking, debit and credit cards, or SIM (subscriber identification module) cards in mobile phones or Pay-TV boxes. Security is becoming an important factor in the growth of eCommerce; consumers expect on-line transactions to be performed in a secure fashion and this is driving up the security requirements of many end-equipment solutions. The small die size, low-power consumption and attack-hardened design of the ARM SecurCore CPU family makes it ideally suited for these applications.

Storage. ARM's activity in the Storage market has helped drive the Company's expertise in applications such as hard disk drives, tape drives, CD ROM drives and DVD players. The market's requirements for increased performance and lower costs are being led by manufacturers, who have turned to ARM to help them meet their design challenges. For example, in 1997 there were between nine and eleven integrated circuits in a typical hard drive. In the past twelve months, five integrated circuits have become the standard, and by 2002 that number will drop to three. This significant chip reduction is primarily due to innovative SoC solutions, such as those powered by the ARM architecture.

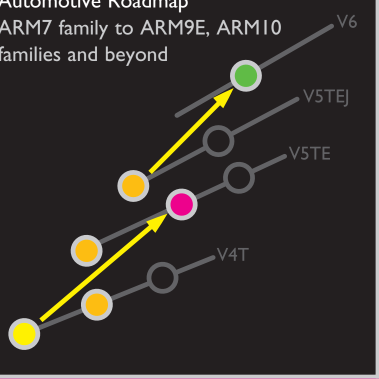
Wireless. Finally the Wireless market comprises products such as mobile phones and portable computing devices. Providing devices for wireless products is one of the highest growth areas in the semiconductor industry. This is clearly a major market for ARM and is dealt with in more detail on pages 26 to 27.

Design at the Core of Future Development. ARM's world-class design teams, which are funded by around 25% of sales revenue that is committed to Research and Development, liaise, develop and work on ideas across the Company. ARM's expertise knows no frontier, and neither do its development teams, which operate cross-function, cross-country and cross-continent. As a result, ARM's global network of Partners fully understands and appreciates the quality of the Company's current and future technologies.

ARM/Automotive. Slowly but surely over the past 20 years, the automotive industry has moved from relying solely on mechanical and electromechanical solutions, to fully embracing microprocessors. Such is the pace of development, complexity and performance of the systems, that the electronic content in today's cars now exceeds the steel content in dollar terms. Just consider this statistic: in 1980, only 18% of a car's functional parts were controlled by computer. Today, the number is closer to 90%.

Consequently, the global automotive industry represents a high-growth opportunity for ARM technology, which offers automotive component manufacturers the correct balance between processing capability and system cost. Today, ARM Partners are developing a wide variety of innovative solutions that range from in-car entertainment to braking, powertrain management and airbag systems. Indeed, the drive to improve vehicle safety, economy and performance is providing a significant opportunity for ARM technology.

Automotive Roadmap
ARM7 family to ARM9E, ARM10 families and beyond



Bosch
Bosch has long had a tradition of innovation and has been at the forefront of technological developments. Automotive equipment forms its largest business sector producing world-beating products such as ABS, engine management, fuel-injection, and on-board electronics systems. Bosch and ARM have worked together closely for the past five years, with ARM cores now found in the state-of-the-art braking systems used by the world's leading automotive manufacturers.

Texas Instruments
Texas Instruments is a global semiconductor company and the world's leading designer and supplier of digital signal processing and analogue technologies. TI became an ARM licensee in 1993 and the companies have worked together on many successful projects. The TI TMS470 microcontroller used in the Bosch ABS Microhybrid contains an ARM7TDMI core and delivers excellent performance and power efficiency.

Bosch has been a leading player in electronic braking systems for some time and as the complexity and performance requirements of their systems have increased, they have chosen ARM as a Partner to assist in the development of their next-generation products. For example, the company's new brake control system is powered by an ARM7TDMI® core-based microprocessor. It enables data from each road wheel and other vehicle systems to be monitored and optimum braking force to be calculated several times a second to minimise stopping distance, whatever the road or weather conditions.

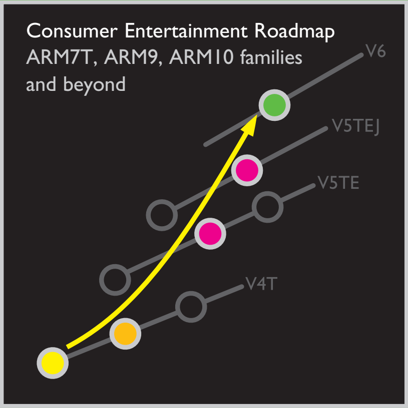
The momentum for safer and higher-performance vehicles will continue to push the automotive industry's needs for more processing power. By incorporating an ARM core, these systems can integrate additional dynamic control functions such as traction control and electronic stability, which provide enhanced directional control and further improve driving safety.


BOSCH
Texas Instruments
ARM
POWERED

ARM/Consumer Entertainment. ARM's Consumer Entertainment end market addresses a market that is, by its very nature, innovative, fast-paced and ultra competitive. This market covers video, audio and other digital consumer applications and includes products such as digital TVs, set-top boxes, DVDs, MP3 players, games consoles, portable disc players and hi-fi systems. These are precisely the areas where ARM's strengths come into their own, particularly in terms of integration, cost, performance and quality.

ARM has already established a significant share in this high-profile global market, and is building on its position with the introduction of the ARM SIMD (single instruction multiple data) extensions for multimedia applications. The new extensions increase the media processing capability of ARM Powered devices in high-performance consumer products, while continuing to offer the low cost and low power consumptions that consumers are demanding.

ARM has developed strong relationships with many of the key innovators in this market. These Partners include some of the Japanese leaders in consumer electronics such as Panasonic, Sharp, Sony and Yamaha, as well as other recognised consumer giants such as Philips in Europe and Samsung in Korea. ARM has a sizeable presence in the consumer entertainment market, where its reputation for excellence of design, performance and low cost put it in an enviable position as this exciting end market continues to drive forward.



The original Nintendo Game Boy, an 8-bit product first launched in 1989, became the most popular handheld game platform in the world, selling more than 100 million units. For the next leap forward into 32-bit technology, an ARM core is being used in the new Nintendo Game Boy Advance. This product sets a new standard for handheld game playing worldwide, and delivers more than ten times the performance of the original Game Boy while retaining backward compatibility with existing game titles. Sharp, ARM's silicon Partner in this project, and Nintendo, expect many companies around the world to develop games for the Game Boy Advance, one of which is Rare, an industry-leading games developer based in the UK.

Sharp

Sharp has been an ARM Partner since 1993, and the two companies have worked together in a number of productive collaborations. The Game Boy Advance is the latest development using ARM CPU core technology. Today, Sharp is a leading developer of LCDs, optoelectronics, infra-red devices and semiconductors including flash memories, LCD drivers, CCD/CMOS imagers and system LSIs.

Rare

Rare Limited is a UK-based video game development company which, over the course of the past two decades, has grown into a huge creative force behind today's Nintendo systems and become a household name for games players worldwide. With such blockbusters as GoldenEye, Perfect Dark and Donkey Kong 64 under its belt, Rare is currently working on several titles for the Nintendo Game Boy Advance, powered by the ARM7TDMI core, using development tools supplied by ARM.

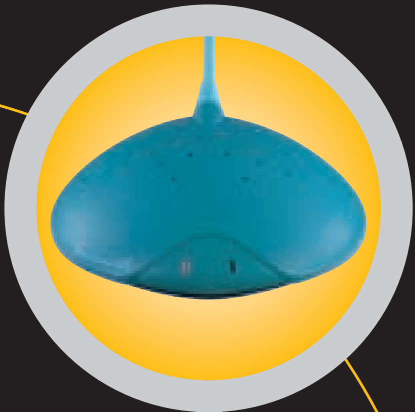
ARM/Networking. Networking is the second largest and fastest growing end market for ARM. In contrast to the wireless arena, where a small set of large semiconductor companies dominate, the networking market is made up of small, fast-moving public and private chip companies that are successfully addressing market needs alongside traditional industry giants. ARM's success in this market draws from both the technical suitability of the cores for networking applications, as well as the Company's flexible business model, which addresses the needs of both the large and small silicon suppliers who service network equipment providers.

One of the main characteristics of this high-growth market is that it is highly fragmented, with a diverse range of products being developed for both network endpoints, such as analogue or broadband modems, as well as network infrastructure, including switches, routers and telephony equipment. ARM technology is designed into both classes of products, where the Company's Partners provide custom solutions or develop standard products suited to particular communications functions. Growth areas for ARM technology include: IP (Internet Protocol) phones; broadband access, including xDSL and cable modems; wireless LAN and home networking solutions.

Alcatel Speed Touch USB ADSL Modem
Alcatel is a world leader in the high-speed access and optical transport market. The company's Speed Touch USB ADSL modem supports both ADSL and G.lite broadband protocols, providing "always on" service at up to 8Mb/s downstream. The Alcatel PC host software installs in just a few mouse clicks and can be pre-configured by the service provider ensuring a true plug-and-play customer experience. The modem has been chosen for ADSL service deployments by major telecom companies in Europe, Asia and the US.

ALCATEL

Time-to-market, innovation and standards-compliance are critical in this market, and ARM's technical strengths, third-party support infrastructure and business model have led to considerable design win activity. To address the needs of this diverse market, the Company continues to innovate – not only technically, but also with its licensing business model. The ARM Foundry Program, which provides access to ARM technology for numerous "young" fabless semiconductor companies and start-ups, is fundamental to this strategy. From a handful of designs in 1997 to hundreds of designs either in development or in production today, ARM estimates that its Partners shipped more than 50 million units into the Networking market in 2000.

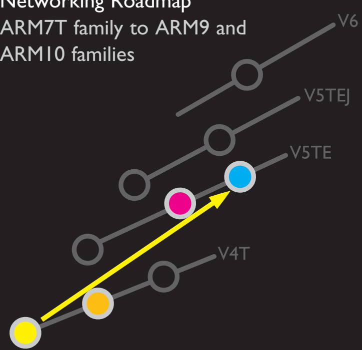


Alcatel Customer Premises Division

Alcatel has been an ARM licensee since 1995 and the two companies have worked together on many projects. The Alcatel Speed Touch USB ADSL modem uses silicon designed by Alcatel CPD and contains an ARM cached processor core. This low-power chip design means that the modem can be powered from the USB port and does not require an external power supply. The complete solution supports operator defined profiles and in-service software upgrades to ensure maximum performance and flexibility.

Networking Roadmap

ARM7T family to ARM9 and ARM10 families



ARM/Secure. As consumers increase the number of electronic transactions they perform, the need for security in the devices they use increases. This means that smartcards, mobile phones, personal computers and, in fact, any Internet-connected device will need secure technology. The need for security is also developing in network infrastructures, where switches and routers are also being specified with on-board encryption.

ARM's development team for the Secure market, which is primarily based in France, is mainly involved in providing cores for smartcards and security applications. France has pioneered the use of smartcards in a wide variety of applications, including pre-paid phone cards, credit and debit cards, as well as in the provision of medical services.

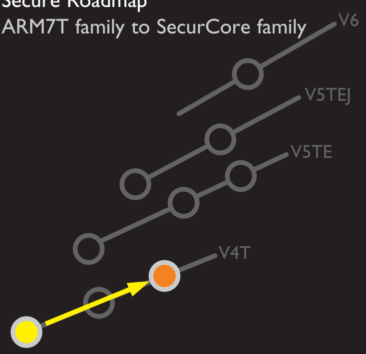
Smartcards are also found today in mobile phones, set-top boxes for Pay-TV transactions, and in mass transportation systems, where they replace conventional ticketing systems with fares scanned and deducted automatically from a card. They are also assuming a growing role in network systems, where they are used to protect computer networks from unauthorised use, to secure eCommerce transactions. Even the automotive industry is beginning to rely on secure technology to give cars increased theft protection.

The fast-growing application of 32-bit smartcard technology is certainly the SIM (subscriber identification module) card used in GSM digital mobile phones. These cards enable phone users to activate new applications over the air – such as traffic data, stock market updates, horoscopes and theatre ticket bookings – all of which are attractive features for users. Importantly, these features are just as attractive to mobile operators as they are able to differentiate their offerings, reduce client "churn" and generate additional revenue. An excellent example is the ARM Powered Incard MoKard, the world's first 32-bit SIM card in high-volume production.

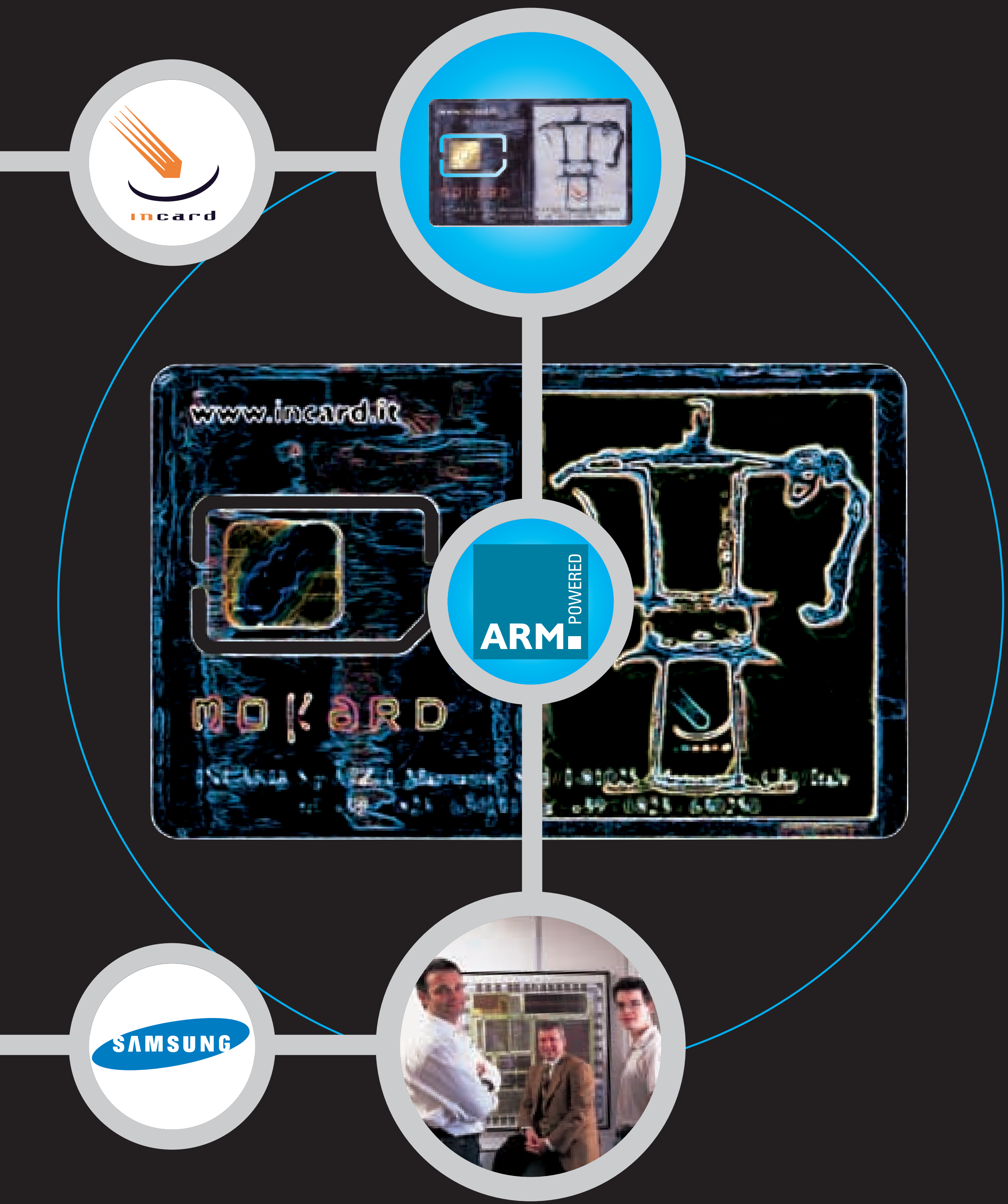
ARM continues to build expertise in this end market, as highlighted with the introduction of its SC100™ core, the first member of the ARM SecurCore family of microprocessor cores, which provides a flexible and highly-secure solution for smartcard system-on-chip integration.

Incard
The Incard MoKard functions as a GSM SIM card and its ARM7 family core-based Samsung S3C49A9 chip enables it to run a wide range of software including the Sun® Java Card™. The MoKard implements advanced security features and contains 100 kBytes of memory, enabling mobile phone users to download and run their favourite applications software.

Secure Roadmap
ARM7T family to SecurCore family



Samsung
Founded in Korea in 1938, Samsung is recognised as a global brand built on massive investment in research and development. The company has been an ARM semiconductor Partner for five years and the two companies have successfully collaborated in a number of areas, most recently in the development of the Samsung S3C49A9, which is to be found in the Incard MoKard.


incard
www.incard.it
POWERED
ARM
SAMSUNG

Ericsson
The Ericsson R380 is the world's first smartphone to combine the functions of a mobile world phone with those of a Personal Digital Assistant, while also providing access to the mobile Internet. Powered by an ARM7 core-based processor, the R380 features WAP, SMS and e-mail while also offering tools such as an address book, handwriting recognition, calendar, notepad and synchronisation with the user's desktop PC.

Innovative, high-performance, low-cost, mass appeal. These are the characteristics of the phenomenon of the digital age: wireless communication. Add in low-power consumption and the requirements of this end market exactly match those of ARM's unique solution offerings. The ARM7TDMI core, first developed for digital cellular handsets, is ARM's most popular offering for the Wireless market and today can be found in millions of handsets worldwide, spanning such wireless standards as GSM, CDMAone, D-AMPS and PDC.

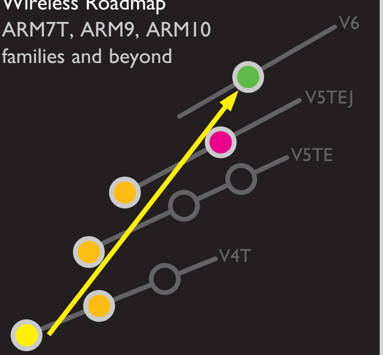
But the Wireless market is not just about smaller mobile phones; the technology is clearly moving toward very high-performance products which have all the advantages of handheld computers integrated into a mobile communications device.

ARM is working with the industry's leading mobile phone manufacturers and system software vendors in the race to bring a new generation of smartphones to the market. An excellent example is the ARM Powered Ericsson R380 phone running Symbian's mobile operating system, with full Internet connectivity and handheld computing functionality.

ARM continues to innovate in the Wireless market, as shown by the introduction of its Jazelle technology. This gives developers of wireless communications products a low-power microprocessor solution capable of executing Java applications at significantly enhanced performance levels. Jazelle technology-enabled devices surpass 1000 CaffeineMarks in a typical 200 MHz processor implementation and enhance Java performance by a factor of eight. This provides developers of Java applications software, such as enterprise solutions and games, with an excellent combination of performance and low-energy usage.

Symbian
The Ericsson R380 phone is based on the Symbian operating system, which was designed for mobile information devices. ARM has worked closely with Symbian (formerly the software division of Psion) since 1994, to the extent that today, all commercial systems running the Symbian platform, including the Psion 7, Revo and 5mx PDAs, are designed with ARM core-based processors.

Wireless Roadmap
ARM7T, ARM9, ARM10
families and beyond



ARM/The Future. Predicting the future is never easy, and in this fast moving digital age, even conservative assumptions and forecasts can be made to look foolish within a matter of months. What is certain though is that a bewildering range of digital products will continue to be developed and launched and, futuristic as they may appear today, will become commonplace, and even indispensable, tomorrow.

Future products. Products which may be ideas today will all possess a number of common characteristics, particularly lower cost and greater efficiency – which can be summed up as smaller in size but higher in performance. ARM's position at the core of future technology is well-based because it is able to fulfil all these requirements and more, no matter what products finally emerge.

Future developments. ARM's simple aim for the future is to make life more convenient, more entertaining, more comfortable and more productive, and one of the ways it will achieve this is by enabling tomorrow's products to be more affordable and, therefore, more available. ARM's vision is for everyone on the planet to use ARM Powered products, from mobile phones to laser printers, from cars to disk drives. The list is virtually endless, as is ARM's involvement in tomorrow's developments.

"Always-on". ARM is at the forefront, today, of "always-on" connectivity, to enable people, wherever they may be, to always be in touch with friends, family, their work or their community. Quite where this incredible technology will take us is anybody's guess, but its implications are boundless.

'Thinking" products. ARM is also empowering systems designers the world over to increase energy efficiency through smarter cars, intelligent homes and thoughtful appliances.

All of this, and much, much more will be achieved because ARM has a strong technical roadmap to meet system designers' needs, both today and tomorrow, thereby maximising their investment in ARM technology. The Partnerships will grow stronger and broader in the future because of the depth of the collaboration in the past.

ARM's Partnerships. So by expanding and developing the ARM Partnership model (including the world's leading OEMs, semiconductor companies, design houses, tools vendors, and software writers), ARM will continue to provide the essential tools to enable others to create and deliver innovative systems and products to a global market. In addition, ARM is also being innovative in adapting its business model to provide small, niche semiconductor start-ups access to its technology.

Future focus. By concentrating on clearly defined end markets, and thereby focusing on the requirements of specific applications and working with customers to meet and anticipate their needs, ARM will continue to play a pivotal role in the development of the digital age. Whatever the future holds, ARM's Intellectual Properties will be at the core of tomorrow's technology, making a wide range of high-quality, high-performance digital products more available and more affordable to everyone.

ARM/Financial Statements Prepared in Accordance with UK GAAP.

Selected financial data – UK GAAP.

	2000 £000	1999 £000	1998 £000	1997 £000	1996 £000
Turnover	**100,730**	62,120	42,268	26,580	16,694
Cost of sales	**(11,647)**	(9,803)	(8,316)	(6,685)	(4,095)
Gross profit	**89,083**	52,317	33,952	19,895	12,599
Total operating expenses	**(57,927)**	(35,794)	(25,638)	(15,343)	(9,196)
Group operating profit	**31,156**	16,523	8,314	4,552	3,403
Share of operating loss of associated undertaking	**(85)**	—	(71)	(31)	—
Total operating profit	**31,071**	16,523	8,243	4,521	3,403
Gain on part disposal of associated undertaking	**512**	—	—	—	—
Interest receivable, net	**3,912**	2,266	1,911	484	269
Profit on ordinary activities before taxation	**35,495**	18,789	10,154	5,005	3,672
Tax on profit on ordinary activities	**(5,032)**	(1,776)	(3,507)	(1,661)	(1,012)
Profit on ordinary activities after taxation	**30,463**	17,013	6,647	3,344	2,660
Equity minority interest	**(192)**	(64)	(8)	(15)	—
Profit attributable to shareholders	**30,271**	16,949	6,639	3,329	2,660
Dividends	**—**	—	(4,000)	—	—
Retained profit for the financial year	**30,271**	16,949	2,639	3,329	2,660
Capital expenditure	**11,842**	5,900	6,402	4,033	1,759
Cash and short term investments	**75,266**	51,804	39,591	7,405	10,115
Shareholders' funds	**101,298**	67,683	49,324	12,195	8,798
Employees at end of year	**619**	443	354	274	162

Compliance with the Combined Code. The Company complies, and complied throughout 2000, with the Combined Code appended to the Listing Rules of the Financial Services Authority.

Composition and operation of the board. Since October 2000, the board has been strengthened by the addition of two more executive directors and now numbers eight, comprising the Chairman and Chief Executive Officer, four executive directors and three independent non-executive directors. The two additions to the board support a greater focus on the strategic development of the group. The five executive directors provide the necessary skills in commercial, operational, strategic and financial management. The three independent non-executive directors provide a blend of experience to enable them to bring strong independent judgement and considerable knowledge and experience to the board's deliberations. Peter Cawdron, who was the senior non-executive director during the year, has significant experience of financial and strategic management both in the UK and United States and has extensive knowledge of UK public company issues. Doug Dunn has experience of running large companies in the semiconductor and electronics industry and provides a major contribution on operational and strategic issues. Larry Tesler has a broad understanding of technology and the practices of Silicon Valley based companies.

The board has given careful consideration to the combined role of Chairman and Chief Executive Officer and believes this approach has served the Company well in the past. For the time being, it considers it will continue to be an appropriate model for the Company having regard to its peers in the high technology sector. The board believes that the strong non-executive representation, and the recent addition to the board of two executive directors, will ensure that the board continues to be balanced and that it will work effectively as it has done in the past.

The board has four regularly scheduled meetings annually with additional meetings to discuss strategy and other pertinent issues organised as necessary during the year. The board is responsible for the development of business and commercial strategy, monitoring progress, the approval of major business matters, policies, operating and capital expenditure budgets, ensuring high standards of corporate governance are maintained, final approval of senior executive remuneration and succession planning for top management. The board is also responsible for sanctioning unusual commercial arrangements such as atypical license agreements and investments. Prior to each meeting, the board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance compared to budget. The ultimate responsibility for reviewing and approving the annual report and financial statements and the quarterly reports, and for ensuring that they present a balanced assessment of the group's position, lies with the board. The board has established a number of committees and delegates the day-to-day responsibility of managing the group to the executive committee, details of which are set out below.

Executive committee. The executive committee is responsible for the implementation of the strategy set by the board. Among other things, this committee is responsible for approval of standard license agreements, ensuring the group's budget and forecasts are properly prepared, ensuring targets are met, and generally managing and developing the business within the overall budget. Variations from the budget and changes in strategy require approval from the main board of the Company. The executive committee, which meets monthly, comprises the executive directors, the directors of ARM Limited, representatives of the group's overseas operations and other senior operational personnel as appropriate.

Audit committee. The audit committee has responsibility for, among other things, keeping under review the scope and results of the external audit, the review of the annual report and financial statements and half year interim report, the involvement of the auditors in those processes and considering compliance with relevant legal and accounting matters. The audit committee comprises Peter Cawdron (Chairman), Doug Dunn and Larry Tesler. The committee keeps under review the independence and objectivity of the group's auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors. The committee meets three times a year, once to review the half year interim results, once before the year end to discuss accounting matters and the approach to the audit, and once prior to the release of the preliminary announcement of the annual results to review the financial statements and audit findings. The external auditors and Chief Financial Officer attend all meetings in order to ensure that all the information required by the audit committee is available for it to operate effectively. All directors may attend and, at least once a year, representatives of the Company's auditors meet with the audit committee without any executive directors being present.

Remuneration committee. The remuneration committee has responsibility for making recommendations to the board, within agreed terms of reference, on the Company's policy on executive remuneration and the individual remuneration packages for the executive directors including pension rights and any compensation payments. It is chaired by Doug Dunn. Peter Cawdron and Larry Tesler are also members of this committee which meets twice a year, once before the end of the year when remuneration issues are tabled for the subsequent year, and shortly afterwards in the new year to review the input of external advisers. The committee has access to professional advice from outside advisers in the furtherance of its duties and makes use of this. Coming from diverse backgrounds, the three independent non-executive directors are able to offer a balanced view with respect to remuneration issues for the group. The Chief Executive Officer and Executive Vice President of Human Resources will normally attend these meetings. No director is involved in deciding his own remuneration. The report of the board on remuneration is set out on pages 34 to 36.

Nominations committee. The nominations committee has responsibility for proposing to the board any new appointments of both executive and non-executive directors. It is chaired by the Chief Executive Officer, and is attended by the three independent non-executive directors, Doug Dunn, Peter Cawdron, and Larry Tesler. The committee meets as required.

Internal control. The board of directors has overall responsibility for ensuring that the group maintains an adequate system of risk management and internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate the risks inherent in a fast-moving high technology business and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

The central process for managing risk is a series of interconnected meetings that span the group from a detailed weekly operational meeting chaired by the Chief Operating Officer to the main board meetings of the Company. Each week a business review meeting is held whose purpose is to monitor and control all main business activities, sales forecasts and other matters requiring approval which have arisen within the week. Each month, the outputs of this weekly business review meeting are reviewed by the executive committee, which in turn raises relevant issues with the main board of the Company. Additionally, the board has undertaken a review of the significant risks facing the group of both a financial and non-financial nature with the assistance of an independent firm of consultants. The resulting independent report has been reviewed in detail by the main board. In light of this, changes have been made to the group's organisation, including the establishment of a group devoted to strategic issues under the direction of Jamie Urquhart.

These processes for identifying, evaluating and managing the significant business, operational, financial, compliance and other risks facing the group have been in place for the year under review and up to the date of approval of the annual report and financial statements and accord with the guidance on internal control issued in September 1999 by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales.

Given the group's relatively small size of a little over 600 employees, the board does not consider that it would be practicable to have its own internal audit function for the present. Instead, it has chosen to date to contract out certain internal audit activities on a project by project basis.

Social, ethical and environmental policies. While the Company is accountable to its shareholders, it also endeavours to take into account the interests of all of its stakeholders including its employees, customers and suppliers and the local communities and environments in which it operates. During 2000, the Company joined the Institute of Business Ethics with a view to adopting the "Good Corporation Charter" which encompasses a range of policies which underlie the Company's aim to be increasingly socially responsible in all its activities. This project is being supervised by the Chief Financial Officer. As a company whose primary business is the licensing of intellectual property, employees are highly valued and their rights and dignity are respected. The Company strives for equal opportunities for all present and potential employees and does not tolerate any harassment of or discrimination against its staff. The Company also endeavours to be honest and fair in its relationships with its customers and suppliers and to be a good corporate citizen respecting the laws of the countries in which it operates.

The Company's premises are composed exclusively of offices since it has no manufacturing capability. The Company has recently formalised an environmental policy and endeavours to comply at all times with appropriate environmental laws and regulations.

Relationships with shareholders. The board makes considerable efforts to establish and maintain relationships with institutional shareholders. At present, around 15 analysts write research reports on the Company. The board endeavours to make institutional presentations at least every six months in Europe, the United States and the Far East in order to communicate its objectives. The board is also keen to communicate with private investors and part of its website is set aside for investor relations issues. All shareholders may register to receive the Company's press releases via the internet and internet links to videotaped recordings of earnings presentations and audio conference calls are available at the appropriate time on the Company's website. The board actively encourages participation at the Annual General Meeting, scheduled for 17 April 2001, which is the principal forum for dialogue with private shareholders. A presentation will once again be made by the Chief Executive Officer on the Company's technology and its objectives and an open question and answer session will follow to enable shareholders to ask questions about the business in general.

Going concern. After making enquiries, the directors have a reasonable expectation that the group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Statement of directors' responsibilities. Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the group and Company, and of the profit and loss of the group for the period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group 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 Company's website. Uncertainty regarding legal requirements for the preparation and dissemination of financial statements is compounded as information published on the internet is accessible in many countries with differing legal requirements relating to this.

By order of the board

David MacKay. Company Secretary

Remuneration policy. The principal function of the remuneration committee is to make recommendations to the board on the remuneration and other benefits of all executive directors, including pension contributions, bonus payments, share options and service contracts. The remuneration committee in its deliberations on the remuneration policy for the Company's directors seeks to give full consideration to the Combined Code including the provisions set out in Schedule A to that Code.

The Company operates a remuneration policy for executive directors designed to ensure it attracts and retains the management skills necessary for it to remain a leader in its field. The policy seeks to provide rewards and incentives for the remuneration of executive directors that reflect the performance and objectives of the group. The committee believes that a director's total remuneration should seek to recognise his or her worth in the external market. The policy on executive director remuneration and appointments is set out below.

Total level of remuneration. The remuneration committee aims to ensure that individuals are fairly rewarded for their contribution to the rapid growth and success of the group. There is a strong bonus element to executives' remuneration of up to 45% of basic pay. In the last two years, bonuses of 45% have been paid to executive directors. Bonuses are principally tied to the achievement of the group's annual budget, with 35% bonus being awarded if targets are met. There are three main targets, namely the achievement of the budgeted level of sales, profit growth and forward orders generated for future periods, representing bonus opportunities of 12.5%, 12.5% and 10% of base salary respectively. A further 10% bonus based on individual performance is possible at the discretion of the remuneration committee. The nature of the group's development has meant that there has been a good deal of focus on the attainment of short term objectives with a high level of variable remuneration and the committee believes this remains an appropriate method of remuneration. There are no long term incentive plans in place. The Company operates a number of share option plans and all employees can expect to receive a number of share options according to their grade, past performance and length of service in the group. Typically, share options, which are always issued at market value, except for those issued under the Company's savings related share option plans which are issued at a 15% discount to market value, are allocated to employees on an annual basis during the first half of the year. In line with practice among the group's peers in the technology sector, there are currently no performance conditions attached to the issue or exercise of these options.

Service agreements. Executive directors have 'rolling' service contracts that are terminable by either party on one year's notice. These agreements provide for each of the directors to provide services to the Company on a full time basis. The agreements contain restrictive covenants for periods of three to six months following termination of employment relating to non-competition, non-solicitation of the group's customers, non-dealing with customers and non-solicitation of the group's suppliers and employees. In addition, each service agreement contains an express obligation of confidentiality in respect of the group's trade secrets and confidential information and provides for the group to own any intellectual property rights created by the directors in the course of their employment.

Non-executive directors. During 2000, each non-executive director received a total fee of £20,000 per annum. This fee was arrived at by reference to fees paid by other companies of similar size and complexity, and reflected the amount of time non-executive directors were expected to devote to the group's activities during the year. The remuneration of the non-executive directors is set by the board of the Company and their term of appointment is three years. Non-executive directors do not have service contracts.

Directors' shareholdings in the Company. The interests of the directors in the Company's ordinary shares of 0.05 pence, all of which were beneficially held, are set out below. Comparative figures have been amended to reflect the 5 for 1 share split of the Company's ordinary shares which took place in April 2000.

	31 December 2000 Number	31 December 1999 or on appointment Number
R Saxby	**26,093,000**	23,319,000
J Brooks	**750,000**	—
J Urquhart	**2,404,000**	1,904,000
W East(1)	**135,000**	135,000
P Magowan(1)	**1,108,000**	1,108,000
P Cawdron	**98,000**	140,000
L Tesler	**120,000**	150,000
D Dunn	**48,000**	48,000

(1) Comparative figures for Warren East's and Pete Magowan's shareholdings are as at their date of appointment to the board on 9 October 2000.

Directors' shareholdings in the Company/continued. In addition to the interests disclosed above, all of the executive directors (together with all of the employees of the group) are potential beneficiaries of both the ARM Holdings plc Employee Share Ownership Trust and the ARM Holdings plc Qualifying Employee Share Ownership Trust. They are therefore treated as interested in all the shares held by these trusts, being 5,000,000 ordinary shares and 5,942,999 ordinary shares respectively at 31 December 2000 (5,000,000 and 3,900,000 respectively at 31 December 1999 as adjusted to reflect the 5 for 1 share split).

There have been no changes in directors' interests to the date of approval of the annual report.

Options over shares in the Company. Details of options held by directors are set out below:

Director	As at 1 January 2000 Number [(1)]	Granted Number [(1)]	Exercised Number [(1)]	**As at 31 December 2000 Number**	Exercise price [(1)]	Earliest date of exercise	Expiry date
R Saxby	1,400,000	—	1,400,000	—	£0.0045	29/01/96	28/01/03 [(2)]
	1,400,000	—	1,400,000	—	£0.0095	07/02/97	06/02/04 [(2)]
	700,000	—	700,000	—	£0.0175	16/02/98	15/02/05 [(2)]
	600,000	—	—	**600,000**	£0.02	15/07/99	14/07/03 [(3)]
	140,000	—	—	**140,000**	£1.224	11/03/02	10/03/06 [(3)]
	—	25,000	—	**25,000**	£6.155	22/05/01	21/05/07 [(4)]
	4,240,000	25,000	3,500,000	**765,000**			
J Brooks	3,700,000	—	2,200,000	**1,500,000**	£0.026	05/03/00	04/03/04 [(3)]
	140,000	—	—	**140,000**	£1.224	11/03/02	10/03/06 [(3)]
	—	4,874	—	**4,874**	£6.155	22/05/03	21/05/10 [(2)]
	—	20,126	—	**20,126**	£6.155	22/05/01	21/05/07 [(4)]
	3,840,000	25,000	2,200,000	**1,665,000**			
J Urquhart	400,000	—	400,000	—	£0.0175	16/02/98	15/02/05 [(2)]
	380,000	—	380,000	—	£0.02	15/07/99	14/07/03 [(3)]
	870,000	—	870,000	—	£0.026	05/03/00	04/03/04 [(3)]
	140,000	—	—	**140,000**	£1.224	11/03/02	10/03/06 [(3)]
	—	3,736	—	**3,736**	£6.155	22/05/03	21/05/10 [(2)]
	—	21,264	—	**21,264**	£6.155	22/05/01	21/05/07 [(4)]
	1,790,000	25,000	1,650,000	**165,000**			
P Magowan	600,000	—	—	**600,000**	£0.026	05/03/00	04/03/04 [(3)]
	138,040	—	—	**138,040**	£1.224	11/03/02	10/03/06 [(3)]
	1,960	—	—	**1,960**	£1.224	11/03/02	10/03/09 [(2)]
	4,484	—	—	**4,484**	£6.155	22/05/03	21/05/10 [(2)]
	13,881	—	—	**13,881**	£6.155	22/05/01	21/05/07 [(4)]
	758,365 [(5)]	—	—	**758,365**			
W East	131,520	—	—	**131,520**	£1.224	11/03/02	10/03/06 [(3)]
	8,480	—	—	**8,480**	£1.224	11/03/02	10/03/09 [(2)]
	3,187	—	—	**3,187**	£6.155	22/05/03	21/05/10 [(2)]
	20,962	—	—	**20,962**	£6.155	22/05/01	21/05/07 [(4)]
	164,149 [(5)]	—	—	**164,149**			

(1) Adjusted to reflect the 5 for 1 share split in the Company's ordinary shares which took place in April 2000 and the 4 for 1 share split in April 1999 where applicable.
(2) Denotes share options issued under the Company's approved share option scheme.
(3) Denotes share options issued under the Company's unapproved share option scheme.
(4) Denotes share options issued under the Company's unapproved share option scheme which are exercisable as follows:
25% maximum on first anniversary, 50% maximum on second anniversary, 75% maximum on third anniversary, 100% maximum on fourth anniversary.
(5) Denotes number of share options held on 9 October 2000, the date of appointment as directors.

None of the share options issued have performance conditions attached to them.

The market value of the shares of the Company as at 31 December 2000 was £5.06. The closing mid price ranged from £4.40 to £10.02 during the year, after adjusting for the 5 for 1 share split which took place in April 2000.

Options over shares in the Company/continued. The gains made by R Saxby on the exercise of share options were £21,878,150 (1999: £nil), being the exercise of 3,500,000 share options at a market price on the date of exercise of £6.26. The gains made by J Brooks on the exercise of share options were £15,414,800 (1999: £741,000), being the exercise of 500,000, 1,000,000 and 700,000 share options at market prices on the dates of exercise of £6.79, £6.62 and £7.80, respectively. The gains made by J Urquhart on the exercise of share options were £11,031,780 (1999: £nil), being the exercise of 1,000,000, 250,000 and 400,000 share options at market prices on the dates of exercise of £6.62, £7.80 and £6.26, respectively.

The Company has no long term incentive schemes.

Save as you earn options over shares in the Company. Details of options held by directors under the Company's Save as You Earn option schemes are set out below:

Director	As at 1 January 2000 Number	Granted Number	Exercised Number	**As at 31 December 2000 Number**	Exercise price (2)	Earliest date of exercise	Expiry date
R Saxby	39,860	—	—	**39,860**	£0.2445	01/06/01	30/11/01
J Brooks	39,860	—	—	**39,860**	£0.2445	01/06/01	30/11/01
J Urquhart	70,540	—	—	**70,540**	£0.2445	01/06/03	30/11/03
P Magowan(1)	39,860	—	—	**39,860**	£0.2445	01/06/01	30/11/01
W East(1)	19,920	—	—	**19,920**	£0.2445	01/06/01	30/11/01

(1) Denotes number of share options held on 9 October 2000, the date of appointment as directors.
(2) Adjusted to reflect the 5 for 1 share split in the Company's ordinary shares which took place in April 2000 and the 4 for 1 share split in April 1999 where applicable.

Directors' emoluments. The emoluments of the directors of the Company in respect of services to the group were paid through its wholly owned subsidiary, ARM Limited, and were as follows:

	Fees £	Basic salary £	Benefits £	Bonus payments £	Pension contributions £	**Total 2000 £**	Total 1999 £
Executive							
R Saxby	—	223,250	11,660	105,750	22,875	**363,535**	256,286
J Brooks	—	152,250	9,695	65,250	9,150	**236,345**	169,756
W East(1)	—	18,192	2,836	36,000	1,800	**58,828**	—
P Magowan(1)	—	17,907	2,836	39,750	1,688	**62,181**	—
J Urquhart	—	137,750	11,499	65,250	9,150	**223,649**	169,964
Total	—	549,349	38,526	312,000	44,663	**944,538**	596,006
Non-executive							
P Cawdron	20,000	—	—	—	—	**20,000**	15,000
L Tesler	20,000	—	—	—	—	**20,000**	15,000
D Dunn	20,000	—	—	—	—	**20,000**	15,000
Total	60,000	—	—	—	—	**60,000**	45,000
Total	60,000	549,349	38,526	312,000	44,663	**1,004,538**	641,006

(1) Denotes salary from date of appointment as directors on 9 October 2000, but bonuses paid at the end of the year reflecting the full year's performance.

The five executive directors are accruing benefits under a money purchase pension scheme as a result of their services to the group, contributions for which were all paid during the year.

Doug Dunn, OBE. Chairman of the Remuneration Committee

The directors present their annual report and audited financial statements for the year ended 31 December 2000.

Principal activities and review of business. The principal activities of the Company and its subsidiaries are the licensing, marketing, research and development of RISC based microprocessors and systems. The nature of the global semiconductor industry is such that most of its business is conducted overseas and, to better serve its customers, the group has sales offices around the world. These include four offices in the United States, and offices in Tokyo, Japan; Seoul, South Korea; Taipei, Taiwan; Tel Aviv, Israel; Paris, France and Munich, Germany. Design offices are based in Cambridge, UK; Maidenhead, UK; Sheffield, UK; Sophia Antipolis, France and Austin, Texas in the United States. A review of business is set out in the Chairman and Chief Executive Officer's Review on pages 5 to 7 and the Financial Review on pages 10 to 12.

Future developments. The Company's stated objective is to establish a new global RISC architecture standard for the embedded microprocessor market. The directors believe that to achieve this goal it is important to expand the number and range of potential customers for its technology. To this end, the group intends to sign further licence agreements with new customers and to establish relationships with more third party tools and software vendors to ensure that their products will operate on the ARM architecture. The group also plans to develop new technology to license to existing customers. To achieve its stated objective, the directors believe that the group will need to continue to increase its headcount over time in order to develop new technology and serve new customers. As a result of its position as an emerging standard in its industry, the group is presented with opportunities from time to time to acquire complementary technology or resources. During the year the group acquired the business and assets of Infinite Designs Limited, a system-on-chip design house in Sheffield, UK, as well as acquiring EuroMIPS Systems SAS, a CPU design house in France and Allant Software Corporation, a developer of debugging software based in California. In early February 2001, the group acquired part of the business of Noral Micrologics Limited, another software house based in Blackburn, UK, for a consideration of £1.2 million. At the present time, the group has no immediate plans, commitments or understandings with respect to any further acquisitions.

Dividends. With the exception of the dividend paid at the time of its initial public offering in April 1998, the Company has never paid nor declared any dividends on its shares in line with its peer companies in the high technology sector in the United States. Although the policy will be kept under review, the directors do not anticipate paying dividends in the future. No interim dividend was declared during the year and the directors do not recommend the payment of any final dividend for the year.

Research and development. Research and development is of major importance and while the group does not undertake any pure research, it does collaborate closely with universities worldwide. Key areas of product development for 2000 included next-generation wireless applications including Bluetooth solutions, additional versions of the ARM9 architecture, further power and performance optimisation of the ARM10 architecture and enhanced applications software and development tools offerings.

The group incurred research and development costs of £27.5 million in 2000 compared with £17.0 million in 1999, which have been charged to the profit and loss account.

Donations. The group made charitable donations of £41,750 (1999: £21,500) during the year.

Directors in the year. The following served as directors of the Company during the year ended 31 December 2000:

R Saxby (Chairman and Chief Executive Officer)
J Brooks (Chief Financial Officer)
W East (Chief Operating Officer) appointed 9 October 2000
P Magowan (Executive Vice President Sales and Marketing) appointed 9 October 2000
J Urquhart (Chief Strategy Officer)
P Cawdron (independent non-executive)
D Dunn OBE (independent non-executive)
L Tesler (independent non-executive)

During 2000 Peter Cawdron was the senior independent non-executive director.

Election of directors. In accordance with the Company's articles of association, Larry Tesler will retire by rotation at the Company's Annual General Meeting and will seek re-election at that meeting. See page 8 for his biography. He does not have a service contract. In accordance with provision A.6.2 of the Combined Code which requires the election of directors by shareholders at the first opportunity after their appointment, Warren East and Pete Magowan, who were appointed during the year, will submit themselves for election at the Company's Annual General Meeting. See page 8 for their biographies.

Directors' shareholdings in the Company. The interests of the directors in the Company's ordinary shares of 0.05 pence, all of which were beneficially held, are disclosed in the report of the board on remuneration on pages 34 to 36.

Substantial shareholdings. At 8 February 2001 the Company had not received notification that any person held more than 3% of its issued ordinary share capital.

Disabled persons. The group has a strong demand for highly qualified staff and as such disability is not seen to be an inhibitor to employment or career development within the group. In the event of any staff becoming disabled while with the group, their needs and abilities would be assessed and the Company would, where possible, seek to offer alternative employment to them if they were no longer able to continue in their current role.

Employee involvement. As an intellectual property enterprise, it is vital that all levels of staff are consulted and involved in the decision-making processes of the group. To this end, internal conferences and meetings are held regularly which involve employees from all parts of the group in discussions on future strategy and developments. Furthermore, employee share ownership is encouraged and all staff are able to participate in one of the Company's schemes to encourage share ownership. The group has a very informal and delegated organisational structure. It does not presently operate any collective agreements with any trades unions.

Policy on payment of creditors. The group's policy is to pay suppliers within 21 days of the date of receipt of the invoice, unless terms have been specifically agreed in advance. This policy and any specific terms agreed with suppliers are made known to the appropriate staff and to suppliers on request. The average number of creditor days for the year ended 31 December 2000 was 14 days for the group (1999: 12 days), and nil days for the Company in both years.

Annual General Meeting. The Annual General Meeting will be held at The Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY on 17 April 2001 at 10.00 a.m. A presentation will be made at this meeting outlining recent developments in the business.

The Company will convey the results of proxy votes cast at the Annual General Meeting. Shareholders are invited to submit written questions in advance of the Meeting. Questions should be sent to the Secretary, ARM Holdings plc, 110 Fulbourn Road, Cambridge, CB1 9NJ. The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

By order of the board

David MacKay. Company Secretary
8 February 2001

ARM/Consolidated Profit and Loss Account/UK Format.

	Notes	2000 £000	1999 £000
Turnover	2	**100,730**	62,120
Cost of sales		**(11,647)**	(9,803)
Gross profit		**89,083**	52,317
Operating expenses			
Research and development		**(27,518)**	(16,966)
Sales and marketing		**(18,060)**	(11,297)
Administrative expenses		**(12,349)**	(7,531)
Total operating expenses		**57,927**	35,794
Group operating profit		**31,156**	16,523
Share of operating loss of associated undertaking		**(85)**	—
Total operating profit		**31,071**	16,523
Gain on part disposal of associated undertaking	18	**512**	—
Interest receivable and similar income		**3,912**	2,266
Profit on ordinary activities before taxation	2, 5	**35,495**	18,789
Tax on profit on ordinary activities	6	**(5,032)**	(1,776)
Profit on ordinary activities after taxation		**30,463**	17,013
Equity minority interests	21	**(192)**	(64)
Retained profit for the financial year	19	**30,271**	16,949
Earnings per 0.05p ordinary share(1)	8		
Basic		**3.1p**	1.8p
Diluted		**2.9p**	1.7p
Supplemental earnings per 0.05p ordinary share(1)	8		
Basic		**2.7p**	1.3p
Diluted		**2.5p**	1.3p

(1) Re-stated following the 5 for 1 share split of the ordinary shares of the Company in April 2000.

All activities relate to continuing operations, which include the results of the acquisitions in the year integrated into the group. See note 18.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

ARM/Statement of Total Recognised Gains and Losses/UK Format.

	Notes	2000 £000	1999 £000
Profit for the financial year		**30,271**	16,949
Foreign exchange difference on consolidation	20	**75**	164
Total recognised gains and losses for the year		**30,346**	17,113

ARM/Consolidated Balance Sheet/UK Format.

	Notes	2000 £000	1999 £000
Fixed assets			
Intangible assets	9	**5,578**	1,033
Tangible assets	10	**14,874**	9,280
Investments	11	**7,435**	2,488
		27,887	12,801
Current assets			
Stocks	12	**385**	199
Debtors	13	**24,350**	19,123
Short term investments	15	**69,483**	46,007
Cash at bank and in hand	15	**5,783**	5,797
		100,001	71,126
Creditors: amounts falling due within one year	14	**(26,065)**	(16,061)
Net current assets		**73,936**	55,065
Total assets less current liabilities		**101,823**	67,866
Provisions for liabilities and charges	16	**(219)**	(69)
Net assets	2	**101,604**	67,797
Capital and reserves			
Called up share capital	17	**500**	480
Share premium account	19	**74,573**	53,537
Other reserves	19	**130**	55
Profit and loss account	19	**26,095**	13,611
Equity shareholders' funds	20	**101,298**	67,683
Minority interests – equity	21	**306**	114
Capital employed		**101,604**	67,797

The financial statements on pages 40 to 63 were approved by the board of directors on 8 February 2001 and were signed on its behalf by:

Robin Saxby. Director

ARM/Company Balance Sheet/UK Format.

	Notes	2000 £000	1999 £000
Fixed assets			
Investments	11	**3,346**	2,397
Current assets			
Debtors	13	**36,504**	23,922
Short term investments		**37,671**	33,402
Cash at bank and in hand		**132**	54
		74,307	57,378
Creditors: amounts falling due within one year	14	—	(1)
Net current assets		**74,307**	57,377
Net assets		**77,653**	59,774
Capital and reserves			
Called up share capital	17	**500**	480
Share premium account	19	**74,573**	53,537
Profit and loss account	19	**2,580**	5,757
Equity shareholders' funds		**77,653**	59,774

The financial statements on pages 40 to 63 were approved by the board of directors on 8 February 2001 and were signed on its behalf by:

Robin Saxby. Director

	Notes	2000 £000	1999 £000
Net cash inflow from operating activities	22	**41,892**	21,214
Returns on investments and servicing of finance			
Interest received		**3,775**	2,293
Net cash inflow from returns on investments and servicing of finance		**3,775**	2,293
Taxation			
Withholding tax paid		**(2,468)**	(1,771)
UK corporation tax paid		**(123)**	(2,621)
Overseas tax paid		**(337)**	(247)
Tax paid		**(2,928)**	(4,639)
Capital expenditure and financial investment			
Purchase of fixed asset investments		**(4,088)**	—
Purchase of tangible fixed assets		**(11,842)**	(5,900)
Sale of tangible fixed assets		**59**	20
Purchase of intangible fixed assets		**(2,822)**	—
Net cash outflow for capital expenditure and financial investment		**(18,693)**	(5,880)
Acquisitions and disposals			
Receipt from part disposal of associated undertaking		**517**	—
Purchase of subsidiary undertakings	25	**(3,057)**	(1,327)
Purchase of assets and trade	25	**(375)**	—
Net cash acquired with subsidiary undertakings	25	**18**	140
Net cash outflow from acquisitions and disposals		**(2,897)**	(1,187)
Net cash inflow before management of liquid resources and financing		**21,149**	11,801
Management of liquid resources			
Purchase of short term investments	23	**(23,476)**	(8,912)
Financing			
Issue of shares		**2,320**	287
		2,320	287
(Decrease)/increase in cash	23	**(7)**	3,176

Details of the group's net funds are shown in note 24.

1/Principal accounting policies.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting. The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation. The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2000. Intra-group transactions and profits are eliminated fully on consolidation.

Associated undertakings. Companies in which the group has a participating interest are treated as associated undertakings. The group's profit and loss account, balance sheet and cash flow statement have been presented in accordance with the requirements of Financial Reporting Standard ('FRS') 9 "Associates and joint ventures". During the year the group made a partial disposal of its participating interest in Palmchip Corporation with the result that the remaining interest is no longer treated as an associated undertaking. The consolidated profit and loss account includes the group's share of profits less losses of the associated undertaking up to the date of partial disposal. The remaining investment is included in the consolidated balance sheet at the value of the share of net assets at the date of partial disposal. The group had no associated undertakings at 31 December 2000.

Goodwill and intangible assets. Purchased goodwill, being the difference between the fair value of consideration and the fair value of net assets acquired, is capitalised and amortised on a straight-line basis over a prudent estimate of the time that the Company is expected to benefit from it. Goodwill amortisation periods are determined on a case by case basis (see note 9). Provision is made against the carrying value of goodwill where an impairment in value is deemed to have occurred.

Licences purchased for the use of technology are capitalised and amortised over the period in which the group is expected to benefit from the licence. During the year the group purchased a licence which is being amortised over a period of three years.

Trade investments. Trade investments are included at cost less a provision for impairment where necessary.

Short term investments. Bank deposits, which are not re-payable on demand, are treated as short term investments in accordance with FRS 1, "Cash flow statements". Movements in such investments are included under 'management of liquid resources" in the group's cash flow statement.

Pension scheme arrangements. The group contributes to defined contribution plans, covering substantially all employees in Europe and the United States and to government pension schemes for employees in Japan and South Korea. The group contributes to these plans based upon various fixed percentages of employee compensation and such contributions are expensed as incurred.

Tangible fixed assets. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. Tangible fixed assets are carried at cost and are depreciated from the date that they come into use. The principal useful economic lives used for this purpose are:

Freehold buildings	25 years
Leasehold improvements	five years or term of lease, whichever is shorter
Computers and software	three years
Fixtures and fittings	five – ten years
Motor vehicles	four years

Provision is made against the carrying value of tangible fixed assets where an impairment in value is deemed to have occurred.

Operating leases. Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Stocks and work in progress. Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

1/Principal accounting policies/continued.

Turnover. Turnover (excluding VAT) comprises the value of sales of licences, royalties arising from the resulting sale of licensed products, revenues from support, maintenance and training, and consulting contracts and the sale of development systems.

Each licence is designed to meet the specific requirements of each customer. Delivery generally occurs within a short time period after signing. Licence fees are invoiced according to an agreed set of milestone payments. Typically the first milestone is on signing of the contract, the second is on delivery of the customised technology and the third is related to acceptance of the technology by the licensee.

Where agreements involve multiple elements, the entire fee from such arrangements has been allocated to each of the individual elements based on each element's fair value. Vendor specific objective evidence of fair value is determined by reference to licence agreements with other customers where elements are sold separately. Revenue from the sale of licences is recognised on a percentage to completion basis over the period from signing of the licence to customer acceptance. Under the percentage to completion method, provisions for estimated losses on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined.

Agreements including rights to unspecified products are accounted for using subscription accounting, revenue from the arrangement being recognised over either the term of the arrangement or an estimate of the economic life of the products offered, beginning with the delivery of the first product.

In addition to the licence fees, contracts generally contain an agreement to provide post contract support. Fees for post contract support, which take place after customer acceptance are specified in the contract. The fees are determined based on the group's price list as if sold separately. The price list is established and regularly reviewed by management. Revenue for post contract support is recognised on a straight-line basis over the period for which support and maintenance is contractually agreed by the group with the licensee.

The excess of licence fees invoiced over revenue recognised in respect of such fees is recorded as deferred income.

Revenue from consultancy is recognised when obligations are fulfilled; revenue from the sale of development systems is recognised when goods are delivered; and royalty revenue is recognised when notification is received from the customer of product sales, normally quarterly in arrears.

Deferred taxation. Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Foreign currency. The assets and liabilities of subsidiaries denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Profit and loss accounts of overseas subsidiary undertakings are translated at the average exchange rate for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies are taken to reserves and reported in the statement of total recognised gains and losses.

Other transactions denominated in foreign currencies have been translated into sterling at actual rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at rates ruling at the balance sheet date. Exchange differences have been included in operating profit.

Financial instruments. The group attempts to reduce its foreign currency exposure by entering into forward contracts to sell US dollars and buy sterling. The group accounts for these instruments by revaluing the financial instruments and the associated trade debtors and cash at the year end rate. The resulting gain or loss is credited or charged to the profit and loss account for the year.

Research and development. All ongoing research and development expenditure is written off in the year in which it is incurred.

Share schemes. The group's Employee Share Ownership Plan ('ESOP') and Qualifying Employee Share Ownership Trust ('QUEST') are separately administered trusts which are funded by loans (the ESOP) and loans and gifts (the QUEST) from the group, and the assets of which comprise shares in the Company. Shares in the Company held by the ESOP are shown at the lower of cost and market value. Shares in the QUEST are shown at their estimated recoverable amount being the option price of the shares payable by employees. The amounts contributed to the QUEST in excess of the option price are charged against reserves.

The Company operates a Save As You Earn scheme together with a similar scheme for US employees that allows for the grant of share options at a discount to the market price at the date of grant. The Company has made use of the exemption under Urgent Issues Task Force Abstract 17 not to recognise any compensation charge in respect of these options.

Employer's National Insurance and similar taxes arise on the exercise of certain share options. In accordance with Urgent Issues Task Force Abstract 25 a provision is made, calculated using the market price at the balance sheet date, pro-rated over the vesting period of the options.

Grants. Grants in respect of specific research and development projects are credited to the profit and loss account to match the projects' related expenditure.

Changes in presentation of financial information. FRS 16, 'Current tax', has been adopted with no resulting change in presentation.

2/Segmental analysis.

The directors are of the opinion that the group has only one class of business. The group's operations by geographical area are as follows:

Turnover by destination.

	2000 £000	1999 £000
Europe	20,616	8,169
US	55,233	33,091
Asia Pacific	24,881	20,860
	100,730	62,120

Turnover by origin.

	2000			1999		
	Total sales £000	Inter-segment sales £000	External sales £000	Total sales £000	Inter-segment sales £000	External sales £000
Europe	98,678	(8,430)	90,248	60,400	(2,190)	58,210
US	21,017	(15,409)	5,608	12,439	(10,099)	2,340
Asia Pacific	7,285	(2,411)	4,874	3,131	(1,561)	1,570
	126,980	(26,250)	100,730	75,970	(13,850)	62,120

Profit before taxation, by origin.

	2000 £000	1999 £000
Europe	32,795	16,899
US	1,152	825
Asia Pacific	1,548	1,065
	35,495	18,789

Net assets.

	2000 £000	1999 £000
Europe	94,994	64,323
US	4,353	2,249
Asia Pacific	2,257	1,225
	101,604	67,797

3/Directors' emoluments.

The aggregate emoluments of the directors of the Company are set out below.

	2000 £	1999 £
Aggregate emoluments in respect of qualifying services	**959,875**	600,511
Aggregate gains made on exercise of share options	**48,324,730**	741,000
Aggregate group pension contributions to money purchase schemes	**44,663**	40,495
	49,329,268	1,382,006

Five (1999: three) directors (including the highest paid director) are accruing benefits under a money purchase scheme as a result of their services to the Company.

The emoluments of the highest paid director of the Company are set out below.

	2000 £	1999 £
Emoluments in respect of qualifying services	**340,660**	233,898
Gains made on exercise of share options	**21,878,150**	—
Company pension contributions to money purchase schemes	**22,875**	22,388
	22,241,685	256,286

Detailed disclosures of directors' emoluments are shown on page 36. Details of directors' interests in share options are shown on pages 35 to 36.

4/Employee information.

The average monthly number of persons, including executive directors, employed by the group during the year was:

	2000 Number	1999 Number
By activity		
Research and development	**318**	221
Administration	**66**	49
Sales and marketing	**141**	121
	525	391

	2000 £000	1999 £000
Staff costs (for the above persons)		
Wages and salaries	**27,264**	17,568
Social security costs	**2,696**	1,618
Other pension costs	**1,160**	853
	31,120	20,039

Of the total pension costs above, £nil (1999: £nil) remained unpaid at the year end.

5/Profit on ordinary activities before taxation.

Profit on ordinary activities before taxation is stated after charging:

	2000 £000	1999 £000
Depreciation charge for the year:		
Tangible owned fixed assets	**6,246**	4,581
Amortisation of goodwill –subsidiary	**1,309**	94
–associate	**—**	5
Amortisation of other intangible assets	**234**	—
Provision for diminution in value of goodwill of associate	**—**	34
Auditors' remuneration:		
Audit services (Company £5,000 (1999: £4,000))	**140**	74
Non-audit services	**158**	284
Hire of plant and machinery –operating leases	**79**	31
Leased buildings –operating leases	**2,667**	1,260

In 2000 non-audit fees were £158,000 (1999: £284,000) and related to tax compliance and advisory work £39,000 (1999: £106,000), interim reviews, SEC-related work and accounting advice £89,000 (1999: £130,000) and other advisory work £30,000 (1999: £48,000).

Fees to major firms of accountants other than the group's auditors for non-audit services amounted to £293,000 (1999: £112,000).

6/Tax on profit on ordinary activities.

	2000 £000	1999 £000
United Kingdom corporation tax at 30% (1999: 30.25%):		
Current	**5,413**	2,126
Under/(over) provision in respect of prior years	**39**	(388)
Deferred	**—**	336
Other	**(484)**	(496)
	4,968	1,578
Overseas taxation:		
Current	**680**	218
Deferred	**(415)**	—
Relief for overseas taxation:		
Tax spared	**—**	(20)
(Over) provision in respect of prior years:		
Current	**(201)**	—
	5,032	1,776

The taxation charge for the year has been reduced by £5,331,000 (1999: £4,359,000) following a contribution of £17,787,000 (1999: £14,411,000) to the group's QUEST as detailed in note 11, and by £585,000 (1999: £598,000) in relation to tax losses generated by overseas subsidiaries.

7/Profit for the financial year.

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation, including intra-group dividends received, was £14,610,000 (1999: £18,681,000).

8/Earnings per share.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the ESOP and the QUEST which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company had one category of dilutive potential ordinary shares during the year, being those share options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2000			1999		
	Earnings £000	Number of shares (thousands)	Per share amount	Earnings £000	Number of shares (thousands)(1)	Per share amount (1)
Basic EPS						
Profit available to ordinary shareholders	30,271	970,947	3.1p	16,949	945,322	1.8p
Effect of dilutive securities						
Options	—	57,329		—	74,063	
Diluted EPS						
Adjusted earnings	30,271	1,028,276	2.9p	16,949	1,019,385	1.7p

(1) Adjusted to reflect the 5 for 1 share split of the Company's ordinary shares in April 2000.

Supplemental earnings per share to exclude the tax effect of contributions to the QUEST and goodwill amortisation.

	2000			1999		
	Earnings £000	Number of shares (thousands)	Per share amount	Earnings £000	Number of shares (thousands)(1)	Per share amount (1)
Basic EPS	30,271	970,947	3.1p	16,949	945,322	1.8p
Tax effect of payment to QUEST	(5,331)	—	(0.5p)	(4,359)	—	(0.5p)
Amortisation of goodwill	1,309	—	0.1p	94	—	0.0p
Basic EPS excluding tax effect of QUEST and goodwill amortisation	26,249	970,947	2.7p	12,684	945,322	1.3p
Diluted EPS	30,271	1,028,276	2.9p	16,949	1,019,385	1.7p
Tax effect of payment to QUEST	(5,331)	—	(0.5p)	(4,359)	—	(0.4p)
Amortisation of goodwill	1,309	—	0.1p	94	—	0.0p
Diluted EPS excluding tax effect of QUEST and goodwill amortisation	26,249	1,028,276	2.5p	12,684	1,019,385	1.3p

(1) Adjusted to reflect the 5 for 1 share split of the Company's ordinary shares in April 2000.

As explained in note 6, the group's profit after tax in 2000 has been reduced following a contribution of £17,787,000 (1999: £14,411,000) to the group's QUEST. Supplemental basic and diluted EPS have been calculated to exclude both this effect and the effect of goodwill amortisation in respect of acquisitions. The adjusted numbers have been provided in order that the effects of these items on reported earnings per share can be fully appreciated.

9/Intangible fixed assets.

Group	Licence £000	Goodwill £000	Total £000
Cost			
At 1 January 2000	—	1,127	1,127
Additions (note 18)	2,822	3,266	6,088
At 31 December 2000	**2,822**	**4,393**	**7,215**
Aggregate amortisation			
At 1 January 2000	—	94	94
Charge for the year	234	1,309	1,543
At 31 December 2000	**234**	**1,403**	**1,637**
Net book value			
At 31 December 2000	**2,588**	**2,990**	**5,578**
At 31 December 1999	—	1,033	1,033

The Company does not own any intangible fixed assets.

The group made three acquisitions during the year (see note 18). Goodwill arising on the acquisitions of Allant Software Corporation and EuroMIPS Systems SAS is being amortised over periods of three years and two years respectively. Goodwill arising on the acquisition of the trade and assets of Infinite Designs Limited was written off immediately. Goodwill on the acquisition of Micrologic Solutions Limited in 1999 is being written off over two years. Amortisation periods have been determined with reference to employee turnover rates in the industry and the individual technology acquired with the acquisitions.

10/Tangible fixed assets.

Group	Freehold buildings £000	Assets under construction £000	Leasehold improvements £000	Computers and software £000	Fixtures, fittings and motor vehicles £000	Total £000
Cost						
At 1 January 2000	190	1,436	1,866	15,124	1,959	20,575
Exchange differences	—	—	29	84	36	149
Additions	—	1,596	3,064	6,621	561	11,842
Transfer	—	(1,436)	1,436	—	—	—
Acquisitions	—	—	—	145	—	145
Disposals	—	—	(41)	(124)	(122)	(287)
At 31 December 2000	**190**	**1,596**	**6,354**	**21,850**	**2,434**	**32,424**
Aggregate depreciation						
At 1 January 2000	7	—	724	9,507	1,057	11,295
Exchange differences	—	—	4	47	16	67
Charge for the year	8	—	1,200	4,672	366	6,246
Acquisitions	—	—	—	100	—	100
Disposals	—	—	(4)	(55)	(99)	(158)
At 31 December 2000	**15**	**—**	**1,924**	**14,271**	**1,340**	**17,550**
Net book value						
At 31 December 2000	**175**	**1,596**	**4,430**	**7,579**	**1,094**	**14,874**
At 31 December 1999	183	1,436	1,142	5,617	902	9,280

Assets under construction represent leasehold improvements.

The Company does not own any tangible fixed assets.

11/Fixed asset investments.

Group	Associated undertaking £000	Listed investments £000	Other investments £000	Investment in own shares £000	Total £000
Cost					
At 1 January 2000	319	—	20	2,397	2,736
Additions	—	—	4,088	949	5,037
Part disposal of associated undertaking	(233)	—	—	—	(233)
Share of loss	(85)	—	—	—	(85)
Transfer	(1)	1,282	(1,281)	—	—
At 31 December 2000	**—**	**1,282**	**2,827**	**3,346**	**7,455**
Amounts written off					
At 1 January 2000	228	—	20	—	248
Part disposal of associated undertaking	(228)	—	—	—	(228)
At 31 December 2000	**—**	**—**	**20**	**—**	**20**
Net book value					
At 31 December 2000	**—**	**1,282**	**2,807**	**3,346**	**7,435**
At 31 December 1999	91	—	—	2,397	2,488

Associated undertaking. During the year the group reduced its investment in Palmchip to below 20%. As a result, the group's share of Palmchip's net assets at the date of this divestment has been reclassified as an investment. See note 18. All unamortised goodwill on the acquisition of Palmchip was written off during 1999.

Listed investments. During the year the group invested in the share capital of Parthus Technologies plc, an intellectual property company which develops solutions for mobile-internet devices and applications. The shares are held by ARM Limited and represent a less than 1% holding. The market value of this investment as at 31 December 2000 was £3,827,000.

Other investments. The group invested in two unlisted companies during the year, one of which was a 3.5% investment in the share capital of CoWare, Inc., a company which develops system-on-chip software for a wide range of applications and the other being a less than 1% investment in the share capital of Cambridge Silicon Radio Limited, an intellectual property company which develops Bluetooth solutions. The group also holds 3% of the share capital of Sirius Communications NV whose principal business activity is the design and sale of spread spectrum transceivers which can be integrated into microcontrollers. Full provision has been made against the investment in Sirius Communications NV. All of these investments are held by ARM Limited.

Investment in own shares. Investment in own shares includes £1,438,000 being the cost of 5,000,000 shares in the Company held by the group's ESOP which are disclosed as a fixed asset investment in accordance with Urgent Issues Task Force Abstract Number 13 ("Accounting for ESOP Trusts"). The trust was set up in 1998 and purchased shares at the time of the Company's flotation using funds provided by the Company. No options had been granted over these shares at 31 December 2000 and no awards have been made since the trust was created. As at 31 December 2000 and 1999 the trust held 5,000,000 shares (nominal value £2,500) with a market value of £25,300,000 and £41,770,000, respectively. All costs relating to the scheme are dealt with in the profit and loss account as they accrue and the trust has waived the right to receive dividends of over and above 0.01p per share on all shares held.

Investment in own shares held also includes £1,908,000 relating to 5,942,999 shares held by the group's QUEST, which was established by the Company during 1999 to acquire new shares in the Company for the benefit of employees and directors of the group. 2,042,999 (1999: 3,900,000) shares were purchased in 2000 in two separate transactions detailed below.

On 13 March 2000 and 7 November 2000, the Company provided £14,445,000 and £4,291,000 respectively (1999: £15,370,000) for this purpose of which £14,018,000 and £3,769,000 respectively, being £17,787,000 in total, (1999: £14,411,000) was by way of a gift and £427,000 and £522,000 respectively, being £949,000 in total, (1999: £959,000) was by way of a loan. On the same dates, the QUEST subscribed at market value for 1,483,440 and 559,559, respectively (1999: 3,900,000) of the Company's 0.05p ordinary shares. The shares rank pari passu in all respects with the existing ordinary shares. They will be allocated to employees and directors to satisfy their options granted under the Company's Save As You Earn Option Schemes. The cost of the gifts has been transferred by the Company directly to the profit and loss account reserve. The excess of the subscription price over the nominal value of the shares issued, which amounts to £14,445,000 and £4,290,000, respectively (1999: £15,368,000), has been taken to the share premium account.

The shares held by the QUEST at 31 December 2000 have been included in the group balance sheet, as investments in own shares, at a value of £1,908,000, which is equivalent to the amounts receivable from employees on exercise of their options. The market value of the shares at 31 December 2000 was £30,072,000 (1999: £32,581,000).

The trust has waived the right to receive dividends on the shares held by the QUEST and all costs relating to the scheme are dealt with in the profit and loss account as they accrue.

11/Fixed asset investments/continued.

Company	Interests in group undertakings £000	Investment in own shares £000	Total £000
Cost and net book value			
At 1 January 2000	—	2,397	2,397
Additions	—	949	949
At 31 December 2000	**—**	**3,346**	**3,346**

Investment in own shares comprises the shares held by the Company's ESOP and by the Company's QUEST, as described above.

Interests in group undertakings. Details of subsidiary undertakings are as follows:

Name of undertaking	Country of registration	Description of shares held	Proportion of nominal value of issued shares held
ARM Limited	England and Wales	Ordinary £1 shares	100%
ARM QUEST Trustees Limited	England and Wales	Ordinary £1 shares	100%

The principal activity of ARM Limited is the marketing, research and development of RISC based microprocessors. ARM QUEST Trustees Limited is the trustee company of the Company's QUEST.

The group holds the following investments in subsidiaries, via its subsidiary company, ARM Limited.

Name of undertaking	Country of registration	Principal activity	Proportion of nominal value of issued shares held
ARM, INC.	USA	Marketing and development of RISC based processors	100%
ARM KK	Japan	Marketing of RISC based processors	100%
ARM Korea Limited	South Korea	Marketing of RISC based processors	85%
ARM Taiwan Limited	Taiwan	Marketing of RISC based processors	99.9%
Micrologic Solutions Limited	England and Wales	Dormant	100%
Advanced RISC Machines Limited	England and Wales	Dormant	100%
Allant Software Corporation (note 18)	USA	Dormant	100%
EuroMIPS Systems SAS (note 18)	France	Development of RISC based processors	100%

Nominees of the Company hold 100% of the ordinary share capital of ARM Employee Benefit Trustee Ltd, a company which acts as trustee to the group's ESOP.

12/Stocks.

Group	2000 £000	1999 £000
Finished goods	**385**	199

The Company had no stocks at 31 December 2000 and 1999.

13/Debtors.

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Amounts falling due within one year				
Trade debtors	**18,913**	13,700	—	—
Prepayments and accrued income	**2,887**	2,651	**246**	145
Corporation tax	**439**	1,787	—	164
Other debtors	**1,765**	963	—	—
Deferred tax (see note 16)	**346**	—	—	—
Amounts owed by group undertakings	—	—	**36,258**	23,600
	24,350	19,101	**36,504**	23,909
Amounts falling due after more than one year				
Prepayments and accrued income	—	22	—	13
	—	22	—	13
Total debtors	**24,350**	19,123	**36,504**	23,922

14/Creditors: amounts falling due within one year.

	Group		Company	
	2000 £000	1999 £000	2000 £000	1999 £000
Trade creditors	**2,049**	1,052	—	—
Amounts owed to associated undertakings – trading balances	—	40	—	—
Corporation tax	**1,621**	450	—	—
Other taxation and social security	**590**	391	—	—
Other creditors	**180**	149	—	1
Accruals and deferred income	**21,625**	13,979	—	—
	26,065	16,061	—	1

15/ Financial instruments.

Use of financial instruments – general. In previous years, the group had two primary objectives in its use of financial instruments, namely the management of foreign exchange risk and the maximisation of returns on funds held on deposit, which were managed through the use of hedging strategies (primarily forward contracts) and money market instruments respectively. To meet these objectives the group has used the policies described below which have been applied throughout the current year.

During 2000, the group has made strategic trade investments in companies in order to further establish the ARM architecture as the most widely used embedded RISC processor. This investment activity is intended to create long term strategic alliances with development companies, some of which may be unlisted at the time of the investment decision. As there can be no guarantee that there will be a future market for these securities or that the value of such investments will rise, the directors evaluate each investment opportunity on its merits before committing ARM's funds. The directors review holdings in such companies on a regular basis to determine whether continued investment is in the best interests of the group. Funds for such ventures are strictly limited in order that the financial effect of any potential decline in the value of investments would not be substantial in the context of the group's financial results.

Management of foreign exchange risk. The group's earnings and liquidity are affected by fluctuations in foreign currency exchange rates, principally in respect of the US dollar, reflecting the fact that most of the group's revenues and cash receipts are denominated in US dollars, while the majority of its costs are settled in sterling. The group seeks to use forward contracts to manage the US dollar/sterling risk as appropriate, by monitoring the timing and value of anticipated US dollar receipts (which tend to arise from low volume, high value licence deals) in comparison with its requirement to settle certain expenses in US dollars. The group reviews the resulting exposure on a regular basis and hedges this exposure using forward contracts for the sale of US dollars as appropriate. Such contracts are entered into with the objective of matching their maturity with projected US dollar cash receipts. As the timing of large cash receipts cannot be predicted with certainty, the group enters into forward contracts which allow exercise between two dates, typically between three and four months from the invoice date. In those cases where customers settle debts before the expiry of the foreign exchange contract, the group evaluates whether money market rates available for US dollar investments exceed those for sterling investments. It then seeks to maximise its returns by remitting US dollars against forward contracts at the beginning or end of the exercise period, depending on the prevailing money market rates for US dollars and sterling at the time.

15/ Financial instruments/continued.

Management of foreign exchange risk/continued. At 31 December 2000, the group had outstanding forward contracts to sell US dollars of $34,000,000 (1999: $25,500,000). The group had $25,600,000 (1999: $22,039,000) of trade debtors denominated in US dollars at that date, and US dollar cash balances of $18,220,000 (1999: $23,285,000). Thus 22% (1999: 44%) of the group's US dollar current assets were not hedged by matching forward contracts at the year end, a proportion considered appropriate in the light of the anticipated US dollar requirements to settle liabilities, particularly in respect of overseas operations.

In addition, certain customers remit royalties and licence fees in other currencies, primarily the euro. The group delays converting these amounts into sterling when there is no requirement for the funds and when it believes that exchange rates against sterling will strengthen.

It is not the group's policy to remit the profits of foreign subsidiaries to the UK, but rather to invest those profits in the subsidiary in which they were earned. The group does not hedge any foreign net asset investment using foreign currency loans, as there is currently no requirement for external borrowings.

Maximisation of return on funds held on deposit. The group's earnings may be affected by changes in interest rates available on bank deposits. The group aims to maximise returns from funds held on deposit and uses money market deposits with major financial institutions to do so. Recent maturities have been up to three months in length but this varies since close consideration is given to the UK and US money market yield curves before contracts are closed.

External borrowings. The group had no long term debt at 31 December 2000 (1999: nil) or during the financial year.

Trade investments. The group made three investments in companies during the year. One of these, Parthus Technologies plc, listed on the London Stock Exchange in May 2000. At the year end, as at all times since flotation, the market value of the investment exceeded the cost of the investment (see fair value table below). CoWare, Inc. and Cambridge Silicon Radio Limited, in which the group has also invested, remain unlisted at the year end.

Since the partial disposal of shares in Palmchip Corporation (see note 18), the group's holding has been treated as a trade investment, rather than as an associated undertaking as in previous years. The carrying value of this investment has been frozen at the group's share of net assets at the date of disposal being £1,000.

Numerical disclosures. Numerical disclosures are set out in the tables below. Short term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

Interest rate risk of financial assets.

	2000			1999		
Currency	**Cash at bank and in hand £'000**	**Short term investments £'000**	**Total £'000**	Cash at bank and in hand £'000	Short term investments £'000	Total £'000
Sterling	**269**	**56,415**	**56,684**	450	34,145	34,595
US dollars	**4,659**	**7,534**	**12,193**	4,873	10,220	15,093
EU currencies (other than sterling)	**632**	**3,931**	**4,563**	208	1,000	1,208
Other currencies	**223**	**1,603**	**1,826**	266	642	908
At 31 December	**5,783**	**69,483**	**75,266**	5,797	46,007	51,804
Floating rate	**5,783**	**—**	**5,783**	5,797	—	5,797
Fixed rate	**—**	**69,483**	**69,483**	—	46,007	46,007
At 31 December	**5,783**	**69,483**	**75,266**	5,797	46,007	51,804

The fixed rate cash and short term investments in sterling and US dollars were placed with banks for between one week and three months and earn interest of between 4% and 7% (1999: 5% and 6%). Floating rate cash earns interest based on relevant national LIBID equivalents.

Financial liabilities. Provisions of £219,000 are financial liabilities in sterling on which no interest is paid. Maturity depends on when certain share options are exercised.

15/ Financial instruments/continued.

Fair values of financial instruments.

- Cash and short term investments. The carrying amount approximates to fair value because of the short maturity of those instruments.
- Foreign currency forward contracts. The fair value of foreign currency contracts is estimated using the settlement rates. The fair value of forward contracts is estimated at £551,000 at 31 December 2000 (1999: £2,000). The increase is due to the volatility of the sterling/US dollar exchange rate in 2000.
- Investments in unlisted companies. Those companies in which ARM has invested are early-stage development enterprises, which are generating value for shareholders through research and development activities, and most do not currently report profits. The directors do not consider it possible to estimate with precision the fair value of its investments in unlisted companies (carrying value at 31 December 2000: £2,807,000) as they are, by definition, not traded on an organised market. Nevertheless, based on valuations performed at the time the investments were made, the directors are of the opinion that the fair value of these investments approximates to carrying value.
- Investments in listed companies. The fair value of the group's investments in listed companies at 31 December 2000 as determined by reference to their market value at that date is £3,827,000, compared with a carrying value (cost) of £1,282,000.
- Provisions. The carrying amount of £219,000 approximates to fair value as this is the amount which would be payable if the liability had crystallised at the balance sheet date.

Currency exposure. The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on re-translation of these assets and liabilities are taken to the profit and loss account of the group companies and the group.

2000	US dollars £'000	EU currencies £'000	Other currencies £'000	Total £'000
Functional currency of group operation				
Sterling	**25,646**	**5,038**	**152**	**30,836**
Other currencies	**33**	**—**	**—**	**33**
Total	**25,679**	**5,038**	**152**	**30,869**

1999	US dollars £'000	EU currencies £'000	Other currencies £'000	Total £'000
Functional currency of group operation				
Sterling	24,864	1,208	7	26,079
Other currencies	128	—	—	128
Total	24,992	1,208	7	26,207

Hedges. The group's hedging policy is to hedge currency risk using forward foreign currency contracts for foreign currency debtors. Details of unrecognised and deferred gains and losses are shown below.

	Unrecognised			Deferred		
	Gain £'000	Loss £'000	Total net gain/loss £'000	Gain £'000	Loss £'000	Total net gain/loss £'000
Gains and losses on hedges at 1 January 2000	—	—	—	2	—	2
Arising in previous years included in 2000 income	—	—	—	(2)	—	(2)
Gains and losses not included in 2000 income						
Arising in 2000	—	—	—	551	—	551
Gains and losses on hedges at 31 December 2000	**—**	**—**	**—**	**551**	**—**	**551**
Of which:						
Gains and losses expected to be included in 2001 income	—	—	—	551	—	551

Gains deferred at 31 December 2000 will be matched by losses of the same amount on the underlying items being hedged.

Financial instruments held for trading purposes. The group does not trade in financial instruments.

16/Provisions for liabilities and charges.

The movement in the group's deferred tax and other provisions is as follows:

	Deferred tax 2000 £000	Other 2000 £000	Total 2000 £000	Deferred tax 1999 £000	Other 1999 £000	Total 1999 £000
At 1 January	**(69)**	—	**(69)**	336	—	336
Credited/(charged) to the profit and loss account	**415**	**(219)**	**196**	(336)	—	(336)
Other	—	—	—	(69)	—	(69)
At 31 December	**346**	**(219)**	**127**	(69)	—	(69)

The deferred tax asset at 31 December 2000 is included in debtors.

Other provisions relate to employer's National Insurance and similar taxes on share options provided in accordance with Urgent Issues Task Force Abstract 25.

The Company has no potential liability for deferred taxation. The analysis of deferred tax (liabilities) and assets for the group is as follows:

	Amount recognised		Amount not recognised	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	—	(24)	**852**	(924)
Losses carried forward	—	—	**1,710**	(880)
Other	**346**	(45)	—	(26)
	346	(69)	**2,562**	(1,830)

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries because there is no intention in the foreseeable future that such profits will be remitted.

17/Called up share capital.

	2000 £000	1999 £000
Authorised		
1,580,000,000 ordinary shares of 0.05 pence each (1999: 1,580,000,000)	**790**	790
Allotted, called up and fully paid		
1,000,235,371 ordinary shares of 0.05 pence each (1999: 959,854,025)	**500**	480

The Company subdivided its issued share capital on 19 April 2000 in the ratio of five new ordinary shares of 0.05 pence each for one old ordinary share of 0.25 pence each. Comparative information in the table above has been restated accordingly.

38,338,347 ordinary shares of 0.05 pence each were issued in the year for cash consideration of £2,320,000. The issue of these shares occurred on the exercise of share options at various times during the year.

1,483,440 ordinary shares of 0.05 pence were issued on 13 March 2000 and purchased by the QUEST for £14,445,000. A further 559,559 ordinary shares of 0.05 pence were issued on 7 November 2000 and purchased by the QUEST for £4,291,000.

17/Called up share capital/continued.

Share options. The Company had the following ordinary share options outstanding at 31 December 2000.

Date of issue	Ordinary shares of 0.05 pence each Number (3)	Exercise price (3)	Period of option Earliest date	Period of option Latest date
29 January 1993	860,000	£0.0045	29 January 1996	28 January 2003
7 February 1994	740,000	£0.0095	7 February 1997	6 February 2004
16 February 1995	880,000	£0.0175	16 February 1998	15 February 2005
15 July 1996	3,042,500	£0.02	15 July 1999	14 July 2006
15 July 1996	600,000	£0.02	15 July 1999	14 July 2003
5 March 1997	5,909,800	£0.026	5 March 2000	4 March 2007
5 March 1997	580,030	£0.026	5 March 1998	4 March 2002 (2)
5 March 1997	2,100,000	£0.026	5 March 2000	4 March 2004
30 April 1997	191,340	£0.026	30 April 1998	29 April 2002 (2)
30 April 1997	53,200	£0.026	30 April 2000	29 April 2004
29 May 1997	15,000	£0.0425	29 May 1998	28 May 2002 (2)
29 May 1997	120,000	£0.0425	29 May 2000	28 May 2004
25 June 1997	47,505	£0.0625	25 June 1998	24 June 2002 (2)
25 June 1997	130,000	£0.0625	25 June 2000	24 June 2004
1 October 1997	125,020	£0.0625	1 October 1998	30 September 2002 (2)
1 October 1997	625,000	£0.0625	1 October 2000	30 September 2004
24 December 1997	30,000	£0.0625	24 December 1998	23 December 2002 (2)
24 December 1997	700,000	£0.0625	24 December 2000	23 December 2004
7 March 1998	1,640,000	£0.1125	7 March 2001	6 March 2008
7 March 1998	760,081	£0.1125	7 March 1999	6 March 2003 (2)
17 April 1998 (1)	1,115,920	£0.2445	1 June 2003	30 November 2003
17 April 1998 (1)	3,978,040	£0.2445	1 June 2001	30 November 2001
8 June 1998	203,827	£0.3875	8 June 1999	7 June 2003 (2)
8 June 1998	409,000	£0.3875	8 June 2001	7 June 2005
17 August 1998	416,000	£0.5275	17 August 2001	16 August 2008
17 August 1998	138,071	£0.5275	17 August 1999	16 August 2003 (2)
16 October 1998	211,000	£0.405	16 October 2001	15 October 2008
16 October 1998	54,752	£0.405	16 October 1999	15 October 2003 (2)
11 March 1999	4,026,580	£1.224	11 March 2002	10 March 2009
11 March 1999	3,085,344	£1.224	11 March 2000	10 March 2004 (2)
11 March 1999	7,290,420	£1.224	11 March 2002	10 March 2006
4 May 1999	173,260	£1.338	4 May 2002	3 May 2009
4 May 1999	42,740	£1.338	4 May 2002	3 May 2006
4 May 1999	41,254	£1.338	4 May 2000	3 May 2004 (2)
19 May 1999 (1)	109,405	£1.099	1 July 2001	30 September 2001
10 June 1999 (1)	145,815	£1.099	1 July 2004	31 December 2004
10 June 1999 (1)	377,045	£1.099	1 July 2002	31 December 2002
10 August 1999	75,490	£1.765	10 August 2002	9 August 2009
10 August 1999	60,002	£1.765	10 August 2000	9 August 2004 (2)
10 August 1999	26,010	£1.765	10 August 2002	9 August 2006
12 November 1999	98,610	£4.26	16 November 2002	15 November 2009
12 November 1999	84,640	£4.26	16 November 2002	15 November 2006
1 February 2000	133,875	£7.738	1 February 2003	31 January 2010
1 February 2000	64,000	£7.738	1 February 2001	31 January 2005 (2)
1 February 2000	76,125	£7.738	1 February 2003	31 January 2007
18 April 2000	85,850	£6.136	18 April 2003	17 April 2010
18 April 2000	10,000	£6.136	18 April 2001	17 April 2005 (2)
18 April 2000	36,150	£6.136	18 April 2003	17 April 2007
25 April 2000	50,000	£6.27	25 April 2001	24 April 2005 (2)
19 May 2000 (1)	142,119	£5.65	1 July 2003	31 December 2003
19 May 2000 (1)	29,976	£5.65	1 July 2005	31 December 2005
19 May 2000 (1)	58,045	£5.65	1 July 2002	30 September 2002
22 May 2000	429,306	£6.155	22 May 2003	21 May 2010
22 May 2000	921,750	£6.155	22 May 2001	21 May 2005 (2)
22 May 2000	2,971,826	£6.155	22 May 2001	21 May 2007 (2)
7 August 2000	49,250	£6.7	7 August 2001	6 August 2005 (2)
7 August 2000	185,000	£6.7	7 August 2001	6 August 2007 (2)
13 October 2000	154,000	£6.33	13 October 2001	12 October 2005 (2)
13 October 2000	292,500	£6.33	13 October 2001	12 October 2007 (2)
Total	**47,002,473**			

(1) These relate to options granted under the Company's savings related share option schemes.

(2) Options are exercisable as follows – 25% maximum on first anniversary, 50% maximum on second anniversary, 75% maximum on third anniversary, 100% maxi mum on fourth anniversary.

(3) Both the number of options and the exercise price of options in existence prior to the 5 for 1 share split in April 2000 and the 4 for 1 share split in April 1999 have been restated to reflect the subdivisions.

18/Acquisitions and disposals.

The group made three acquisitions in the year for total cash consideration of £3,432,000. On 31 March 2000 the business and assets of Infinite Designs Limited were purchased for cash consideration of £375,000; on 21 June 2000 all of the issued share capital of EuroMIPS Systems SAS was purchased for cash consideration of £864,000; and on 18 September 2000 all of the issued share capital of Allant Software Corporation was purchased for cash consideration of £2,193,000.

In addition to the cash consideration for the cost of the acquisitions, the acquisition agreements provide for cash bonuses and payments for post acquisition pre-defined services provided by employees. These are being treated as payroll costs of the periods to which the services relate, as required by FRS 7, 'Fair values in acquisition accounting'.

Following a detailed review of the acquired companies' balance sheets and their accounting policies it was considered that no fair value adjustments were necessary.

No indication can be given of the contribution to turnover and operating profit of any of the three acquired companies since acquisition. This is because the business and assets of these companies were integrated into those of other group companies shortly after the purchase and it is not now possible to identify separately the results or turnover of those parts of the business.

The profit or loss of each acquisition for the periods from the beginning of its financial year to the date of its acquisition and for its previous financial year have not been disclosed as the acquisitions are not considered material in relation to the group.

Details of the aggregate net assets acquired and aggregate goodwill arising on acquisition were as follows:

	2000 £000
Tangible fixed assets	**45**
Stock	**2**
Debtors	**238**
Creditors	**(137)**
Cash	**18**
Net assets acquired	**166**
Goodwill	**3,266**
Consideration satisfied by cash	**3,432**

The combinations have been accounted for using acquisition accounting.

In March 2000, the group disposed of part of its shareholding in Palmchip Corporation, reducing its holding to below 20%. The group made a £512,000 profit on the sale of these shares.

19/Share premium account and reserves.

Group	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2000	53,537	55	13,611
Foreign exchange difference on consolidation	—	75	—
Premium on issue of new shares	18,735	—	—
Premium on exercise of share options	2,301	—	—
Contribution to QUEST (see note 11)	—	—	(17,787)
Retained profit for the year	—	—	30,271
At 31 December 2000	**74,573**	**130**	**26,095**

Other reserves represent exchange differences arising on consolidation of foreign subsidiary undertakings.

Company	Share premium account £000	Profit and loss account £000
At 1 January 2000	53,537	5,757
Premium on issue of new shares	18,735	—
Premium on exercise of share options	2,301	—
Dividend received from UK subsidiary company	—	8,200
Contribution to QUEST (see note 11)	—	(17,787)
Retained profit for the year	—	6,410
At 31 December 2000	**74,573**	**2,580**

20/Reconciliation of movements in shareholders' funds.

Group	2000 £000	1999 £000
Profit attributable to shareholders	30,271	16,949
Other recognised gains and losses relating to the year	75	164
New share capital issued	20	8
Share premium on issue of new shares	21,036	15,649
Contribution to QUEST	(17,787)	(14,411)
Net addition to shareholders' funds	33,615	18,359
Opening shareholders' funds	67,683	49,324
Closing shareholders' funds	101,298	67,683

21/Minority interests.

	2000 £000	1999 £000
At start of year	114	50
Profit and loss account	192	64
Equity minority interests at end of year	306	114

22/Reconciliation of operating profit to net cash inflow from operating activities.

	2000 £000	1999 £000
Operating profit	31,156	16,523
Depreciation on tangible fixed assets	6,246	4,581
Loss/(gain) on sale of tangible fixed assets	70	(4)
Amortisation and impairment of goodwill	1,309	133
Amortisation of other intangible assets	234	—
(Increase)/decrease in stocks	(184)	23
(Increase) in trade debtors	(4,995)	(4,433)
(Increase)/decrease in prepayments and accrued income	(859)	100
Increase in trade creditors	957	164
Increase/(decrease) in other taxation and social security	77	(59)
Increase in accruals, deferred income and other creditors	7,662	4,186
Movement on provisions and charges	219	—
Net cash inflow from operating activities	41,892	21,214

23/Reconciliation of net cash flow to movement in net funds.

	2000 £000	1999 £000
(Decrease)/increase in cash for the year	(7)	3,176
Cash outflow from purchase of short term investments	23,476	8,912
Change in net funds from cash flows	23,469	12,088
Other non-cash items:		
Translation difference	(7)	125
Movement in net funds in the year	23,462	12,213
Net funds at start of year	51,804	39,591
Net funds at end of year	75,266	51,804

The group's contribution to the QUEST has no cash flow impact as new shares are issued to the QUEST and there is no cash outflow from the group.

24/Analysis of net funds.

	Cash at bank and in hand £000	Short term investments £000	Total £000
At 1 January 2000	5,797	46,007	51,804
Cash flow	(25)	23,476	23,451
Acquired with subsidiary undertakings	18	—	18
Translation differences	(7)	—	(7)
At 31 December 2000	**5,783**	**69,483**	**75,266**

25/Cash flow from acquisitions.

	2000 £000	1999 £000
Acquisitions		
Purchase of subsidiary undertakings	**(2,888)**	(1,200)
Purchase of assets and trade	**(375)**	—
Acquisition expenses	**(169)**	(127)
Cash at bank and in hand acquired with subsidiary undertakings	**18**	140
Net cash outflow from acquisitions	**(3,414)**	(1,187)

26/Capital commitments.

Group	**2000 £000**	1999 £000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**3,797**	1,473

The Company had no capital commitments at 31 December 2000 and 1999.

27/Financial commitments.

At 31 December 2000 the group had annual commitments under non-cancellable operating leases as follows:

	2000		1999	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Expiring within one year	**342**	**10**	59	3
Expiring between two and five years inclusive	**1,116**	**44**	236	50
Expiring in over five years	**1,421**	**—**	1,683	—
	2,879	**54**	1,978	53

At 31 December 2000 and 1999 the Company had no annual commitments under non-cancellable operating leases.

28/Related party transactions.

The Company has taken advantage of the exemption available to parent companies under FRS 8 ('Related party disclosures') where transactions and balances between group entities have been eliminated on consolidation.

Until the partial disposal of Palmchip Corporation the directors regarded the company as a related party by virtue of its being an associated undertaking; no disclosure has been made of transactions since Palmchip ceased to be a related party. Acorn Group plc was considered to be a related party until June 1999 because it had a 24% interest in the equity share capital of the Company until this date, and no disclosure has been made of transactions since that date. Micrologic Solutions Limited is a related party for 1999 and 2000 since the group acquired 100% of its share capital during 1999. Transactions after the date of acquisition have been eliminated on consolidation and have not been disclosed.

Details of transactions between these parties and the Company's wholly owned subsidiary, ARM Limited, are as follows:

Micrologic Solutions Limited. ARM Limited purchased software services to the value of £94,960 during 1999 up to the date of acquisition.

Palmchip Corporation. There were no purchases up to the date of part disposal (1999: £189,456).

ARM Limited made a loan of £248,000 to Palmchip during 1999 against which a full provision had been made at 31 December 1999. The loan was repaid during 2000.

At 31 December 1999 a trading balance of £40,000 remained outstanding, which has since been repaid.

Acorn Group plc. On 2 February 1999 the group completed the purchase for £190,000 of the leasehold interest in a 13,000 square foot building from Element 14 Limited, a wholly owned subsidiary of Acorn Group plc, a transaction supported by independent valuation.

29/Post balance sheet event.

On 1 February 2001, the group completed the purchase of part of the business of Noral Micrologics Limited, a company located in Blackburn, UK, for a total cash consideration of £1,200,000.

30/Summary of significant differences between UK Generally Accepted Accounting Principles ("UK GAAP") followed by the group and United States Generally Accepted Accounting Principles ("US GAAP").

The financial information set out in this report has been prepared under UK GAAP which differs in certain significant respects from US GAAP. The principal differences between the group's accounting policies under UK GAAP and US GAAP are set out below.

Employee share options. Under both UK and US GAAP, if options are issued at below fair market value there is a compensation cost. Under US GAAP, this cost is charged to the profit and loss account over the vesting period of the options. The conventions used to determine the fair market value can be, and in this case are, different under US GAAP, resulting in no charge for the Company under UK GAAP but a charge for the Company under US GAAP, for options issued in the period from March 1997 to March 1998.

Under UK GAAP, employer's taxes that are payable on the exercise of share options are provided for over the vesting period of the options. Under US GAAP such taxes are only accounted for when the options are exercised.

Deferred taxation. Under UK GAAP, provision for deferred taxation is made only to the extent that liabilities are expected to crystallise in the foreseeable future. Under US GAAP, deferred taxation is recorded in respect of all temporary differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts in future years and are recognised only to the extent that it is more likely than not that they will be realised. As a consequence of this difference, shareholders' equity is increased in each period by the value of the deferred tax assets on temporary differences recognised under US GAAP and the deferred tax charge in each period differs by the movement in these asset balances.

Consolidated profit and loss account. Under UK GAAP, profit before tax is stated before minority interests. Under US GAAP, income before income tax is stated after minority interests.

Investment in own shares/treasury stock. Under UK GAAP, the shares held by the group in the ESOP and the QUEST are included as 'Investment in own shares" within fixed asset investments. Under US GAAP, these shares are treated as treasury stock and are included within shareholders' equity, at original cost. Under UK GAAP, investment in own shares is held at the lower of cost and amounts receivable on exercise of options, where applicable, and market value.

30/Summary of significant differences between UK Generally Accepted Accounting Principles ("UK GAAP") followed by the group and United States Generally Accepted Accounting Principles ("US GAAP")/continued.

Marketable securities. Under US GAAP investments in available for sale securities are marked to market where the market value is readily determinable. Under UK GAAP the group's accounting policy is to carry such investments at cost less any provisions for diminution in value.

Tax on US share options. In the US the group is entitled to a tax deduction for the amount treated as compensation under US tax rules for employee share options, which have been exercised by US employees during the year. This amount is equivalent to the difference between the option exercise price and the fair market value of the shares at the date of exercise. Under UK GAAP the tax benefit arising from this deduction is included in the tax charge in the profit and loss account. Under US GAAP, the tax benefit is recorded as an increase in shareholders' funds.

Acquisitions. Under UK GAAP, the costs of separately identifiable intangible assets (if any) are capitalised separately from goodwill. Under US GAAP, payments to purchase intangible assets that are still in development are charged directly to the profit and loss account.

Consolidated statement of cash flows. The consolidated statement of cash flows prepared under UK GAAP presents substantially the same information as that required under US GAAP. These presentations differ, however, with regard to classification of items within the statements and as regards the definition of the cash and cash equivalents.

Under UK GAAP, cash does not include short term deposits and investments which cannot be withdrawn without notice and without incurring a penalty. Such items are shown as short term investments. Under US GAAP, deposits with a maturity of less than three months at inception which are convertible into known amounts of cash are included as cash and cash equivalents. Under UK GAAP cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investments, acquisitions and disposals, management of liquid resources and financing activities. US GAAP, however, requires only three categories of cash flow activity to be reported: operating, investing and financing. Cash flows from taxation and returns on investments and servicing of finance shown under UK GAAP are included as operating activities under US GAAP.

(a) Reconciliation of UK GAAP operating profit to US GAAP income from operations.

	2000 £000	1999 £000
Group operating profit as reported under UK GAAP	**31,156**	16,523
Adjustments for:		
Provision for employer's taxes on share options	**219**	—
Write off of in process research and development	**(150)**	—
Difference on amortisation of goodwill	**12**	—
Share option compensation cost	—	(736)
Income from operations as reported under US GAAP	**31,237**	15,787

(b) Reconciliation of UK GAAP profit before tax to US GAAP income before income tax.

	2000 £000	1999 £000
Profit before tax as reported under UK GAAP	**35,495**	18,789
Adjustments for:		
Provision for employer's taxes on share options	**219**	—
Write off of in process research and development	**(150)**	—
Difference on amortisation of goodwill	**12**	—
Share option compensation cost	—	(736)
Minority interests	**(192)**	(64)
Income before income tax as reported under US GAAP	**35,384**	17,989

30/Summary of significant differences between UK Generally Accepted Accounting Principles ("UK GAAP") followed by the group and United States Generally Accepted Accounting Principles ("US GAAP")/continued.

(c) Reconciliation of UK GAAP retained profit to US GAAP net income.

	2000 £000	1999 £000
Retained profit as reported under UK GAAP	**30,271**	16,949
Adjustments for:		
Movements in deferred tax assets	**(975)**	1,433
Provision for employer's taxes on share options	**219**	—
Write off of in process research and development	**(150)**	—
Difference on amortisation of goodwill	**12**	—
Share option compensation cost	—	(736)
Tax deduction for US employee share options	—	(1,414)
Net income as reported under US GAAP	**29,377**	16,232

(d) Reconciliation of shareholders' equity from UK to US GAAP.

	2000 £000	1999 £000
Shareholders' funds as reported under UK GAAP	**101,298**	67,683
Adjustments for:		
Recognition of deferred tax assets on temporary timing differences	**852**	947
Investment in own shares/treasury stock	**(35,544)**	(16,808)
Contribution to QUEST	**32,198**	14,411
Provision for employer's taxes on share options	**219**	—
Revaluation of trade investment	**2,087**	—
Write off of in process research and development	**(150)**	—
Difference on amortisation of goodwill	**12**	—
Tax benefit on US employee share options	—	880
Shareholders' equity as reported under US GAAP	**100,972**	67,113

(e) Reconciliation of UK GAAP cash to US GAAP cash and cash equivalents.

	2000 £000	1999 £000
Cash as reported under UK GAAP	**5,783**	5,797
Adjustment for short term investments treated as cash equivalents under US GAAP	**69,483**	46,007
Cash and cash equivalents as reported under US GAAP	**75,266**	51,804

Auditors' report to the members of ARM Holdings plc. We have audited the financial statements on pages 40 to 63.

Respective responsibilities of directors and auditors. The directors are responsible for preparing the annual report. As described on page 33, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 31 to 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or group's corporate governance procedures or its risk and control procedures.

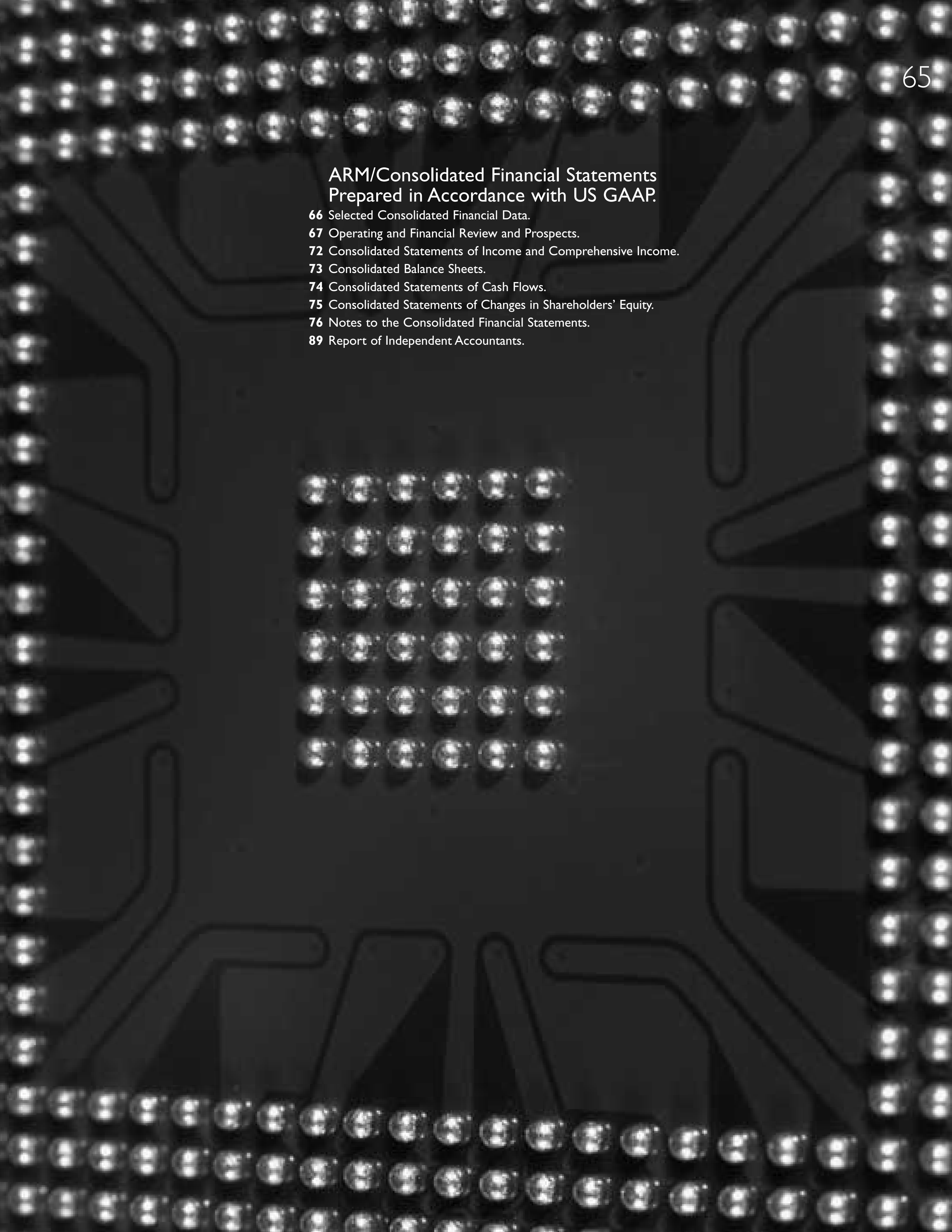
Basis of audit opinion. We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion. In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the group at 31 December 2000 and the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers. Chartered Accountants and Registered Auditors
Cambridge
8 February 2001



ARM/Consolidated Financial Statements Prepared in Accordance with US GAAP.

The following selected financial data should be read in conjunction with, and is qualified in its entirety by, reference to the financial statements of ARM Holdings plc, expressed in sterling, set forth on pages 72 to 88 of this report.

Selected consolidated financial data – US GAAP.

	1996	1997	1998	1999	**2000**
			(in thousands)		
Revenues	£16,694	£26,580	£42,268	£62,120	**£100,730**
Cost of revenues	4,095	6,685	8,316	9,803	**11,647**
Operating expenses	8,997	15,807	26,361	36,530	**57,846**
Income from operations	3,602	4,088	7,591	15,787	**31,237**
Provision against investment	(199)	—	—	—	**—**
Interest, net	269	484	1,911	2,266	**3,912**
Share of loss of equity affiliate	—	(31)	(71)	—	**(85)**
Gain on partial disposal of shares in equity affiliate	—	—	—	—	**512**
Minority interest	—	(15)	(8)	(64)	**(192)**
Income before income tax	3,672	4,526	9,423	17,989	**35,384**
Provision for income taxes	1,029	1,615	3,371	1,757	**6,007**
Net income	2,643	2,911	6,052	16,232	**29,377**
Earnings per common share (assuming dilution)	0.3p	0.4p	0.4p	1.6p	**2.9p**
IPO dividend per common share	—	—	0.5p	—	**—**
Research and development as a percentage of revenues	17.6%	24.7%	30.1%	27.6%	**26.2%**
Capital expenditure	£1,759	£4,033	£6,402	£5,900	**£11,842**
Cash and cash equivalents	£10,115	£7,405	£39,591	£51,804	**£75,266**
Shareholders' equity	£9,011	£12,454	£48,280	£67,113	**£100,972**
Total assets	£16,011	£21,961	£60,580	£83,288	**£127,343**
Employees at year end	162	274	354	443	**619**

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The matters addressed in this operating and financial review and prospects, with the exception of the historical information presented, contain forward-looking statements involving risks and uncertainties.

Overview. ARM designs high performance, low-cost, power-efficient RISC microprocessors and related technology and software, and sells development systems, to electronics companies, which in turn manufacture, market and sell microprocessors, application specific integrated circuits (ASICs) and application specific standard products (ASSPs) based on the ARM architecture to systems companies. ARM also licenses and sells development systems directly to systems companies and provides consulting and support services to its licensees, systems companies and other system designers. ARM has developed an innovative, intellectual property-centred and market-driven business model in which it neither manufactures nor sells the products incorporating ARM technology, but concentrates on the research and development, design and support of ARM architecture and supporting development tools and software.

The table below sets forth, for the periods indicated, the percentage of total revenues represented by certain items reflected in the Company's consolidated statements of income.

	Year ended December 31,		
	1998	1999	**2000**
Revenues			
Product revenues	83.2%	80.7%	**83.9%**
Service revenues	16.8%	19.3%	**16.1%**
Total revenues	100.0%	100.0%	**100.0%**
Cost of revenues			
Product costs	9.3%	7.4%	**4.6%**
Service costs	10.3%	8.4%	**7.0%**
Total cost of revenues	19.6%	15.8%	**11.6%**
Gross profit	80.4%	84.2%	**88.4%**
Operating expenses			
Research and development	30.1%	27.6%	**26.2%**
Sales and marketing	20.7%	18.6%	**17.7%**
General and administrative	11.6%	12.4%	**12.2%**
Amortization of goodwill	—	0.2%	**1.3%**
Total operating expenses	62.4%	58.8%	**57.4%**
Income from operations	18.0%	25.4%	**31.0%**
Interest, net	4.5%	3.6%	**3.9%**
Share of loss of equity affiliate	(0.2%)	—	**(0.1%)**
Gain on partial disposal of equity affiliate	—	—	**0.5%**
Minority interest	—	(0.1%)	**(0.2%)**
Income before income tax	22.3%	28.9%	**35.1%**
Provision for income taxes	8.0%	2.8%	**6.0%**
Net income	14.3%	26.1%	**29.1%**

Product revenues. Product revenues consist of license fees, sales of development systems and royalties. Product revenues for 1998, 1999 and 2000 were £35.2 million, £50.1 million and £84.6 million, representing 83%, 81% and 84% of total revenues, respectively.

License revenues as a percentage of total revenues decreased from approximately 64% in 1998 to approximately 54% in 1999 and decreased again to approximately 45% in 2000 as royalties and development systems became a larger proportion of revenues. The ARM7 family continued to be an important source of revenue in 2000, although less significant as a percentage of license revenues. It accounted for 80% of license revenues in 1998, 45% in 1999 and 36% in 2000. This continuing decline reflected the growing range of products available to license from the Company, including the ARM9 family and ARM10 family products, architecture licenses, peripheral technology, models and application software. Revenues from the ARM9 family have become increasingly important, accounting for 13% of license revenues in 1998, 27% in 1999 and 31% in 2000.

14 new licensees were signed in 2000 bringing the total number of semiconductor partners to 51. However, with the acquisition of Basis Communications Corporation by Intel Corporation in 2000, the total number of semiconductor partners stood at 50 at the end of the year. Of the 14 new partners, four took licenses to ARM7 core technology and two took licenses to ARM9 core technology. Six took 'per use' licenses which enable smaller chip design companies to use the Company's technology through a lower cost of entry license which limits the rights to use the technology to a specified number of design projects. Two foundries based in South-East Asia, TSMC and UMC, became licensees with rights to manufacture ARM-core based microprocessors to these 'per use' licensees.

Existing semiconductor partners continued to license further cores in 2000. Ten existing licensees took licenses to ARM9 core technology, bringing the total with access to ARM9 core technology to 23 after consolidation. One existing partner took an architecture license to several of the Company's instruction sets. 15 further licenses were sold to existing partners for modified versions of various cores already licensed. Sales of licenses to the existing customer base of semiconductor partners has become a more important part of the business, accounting for approximately two-thirds of total license fees in 2000. This compares to approximately 50% of license fees in 1999 and 23% in 1998. The Company expects this trend to continue into 2001 as its pool of existing licensees expands.

During the year, license revenues from the sale of applications software rose to £1.7 million compared to £0.6 million in 1999 and £0.2 million in 1998. This reflected growing demand for the Company's increasing range of application software products.

Revenues from the sale of development systems increased from £4.4 million in 1998 to £5.6 million in 1999 and £13.6 million in 2000 representing approximately 10%, 9% and 14% of total revenues in 1998, 1999 and 2000, respectively. The increase in revenues reflected the growing number of products available to help engineers in designing products using the ARM architecture. The launch of the ARM Developer Suite, a new software toolkit, in the fourth quarter of 1999 has been a major cause of the increased revenues. Strong customer demand for existing products has further improved revenues.

Royalties are either set as a percentage of the licensee's net sales price per chip or, less frequently, as a fixed amount and are recognized when the Company receives notification from the customer of product sales. Royalties increased from £3.6 million in 1998 to £11.1 million in 1999 and £25.6 million in 2000 representing 8%, 18% and 25% of total revenues in 1998, 1999 and 2000, respectively. With the significant increase in volume shipments from 51 million units in 1998 to 182 million units in 1999, and an estimated 400 million units for the calendar year 2000, royalty revenues have increased over this period and the Company expects royalty revenues to continue to grow although they may be subject to significant fluctuations. Unit shipments into the non-wireless end markets have increased in 2000 and the Company expects this trend to continue into 2001.

Service revenues. Service revenues consist of design consulting services and revenues from support, maintenance and training. Service revenues increased from £7.1 million in 1998 to £12.0 million in 1999 and £16.2 million in 2000 representing 17%, 19% and 16% of total revenues in 1998, 1999 and 2000, respectively. Consulting revenues increased from £3.0 million in 1998 to £6.5 million in 1999 and £8.2 million in 2000, which is in line with the growth of the overall business.

Revenues from support, maintenance and training increased from £4.1 million in 1998 to £5.5 million in 1999 and £8.0 million in 2000. The growth in these revenues reflects the increase in the number of licensees during this period as well as some growth in training opportunities.

Geographic analysis. Operating in a global environment, the geographic destinations of the Company's revenues fluctuate from period to period depending upon the country of origin of its customers. The pattern of revenues in 2000 was 55% of revenues coming from the United States, 25% from the Asia Pacific region and 20% from Europe. This is a slight variation from 1999, when revenues from the United States represented 53%, the Asia Pacific region 34% and Europe 13%.

Product costs. Product costs are limited to variable costs of production such as the costs of manufacture of development systems and costs incurred in making third party operating systems compatible with the ARM architecture. Product costs were £3.9 million in 1998, £4.6 million in 1999 and £4.6 million in 2000 representing 9%, 7% and 5% of total revenues in 1998, 1999 and 2000, respectively. These costs have not increased between 1999 and 2000 since the costs per contract of porting third party operating systems have reduced to a very low level. This helped improve the product gross margin in 2000, which was 95% compared to 91% in 1999 and 89% in 1998.

Service costs. Service costs include the costs of support and maintenance services to licensees of the technology as well as the costs directly attributable to consulting work performed for third parties. Cost of services increased from approximately £4.4 million in 1998 to £5.2 million in 1999 and £7.1 million in 2000. The service gross margin was approximately 38% in 1998, 57% in 1999 and 56% in 2000. Service margins in 2000 and 1999 have been higher due to improved margins on consulting projects and a higher proportion of more profitable design transfer work compared to 1998.

Research and development. Research and development costs increased from £12.7 million in 1998 to £17.2 million in 1999 and £26.4 million in 2000, representing 30%, 28% and 26% of total revenues, respectively. Included in research and development costs for 1998 and 1999 were non-cash compensation expense of £280,000 and £284,000 respectively relating to stock options granted between March 1997 and March 1998. There was no further compensation charge in 2000. Continued investment in research and development remains an essential part of the Company's strategy since its development of new products to license is key to its success. Current projects include next-generation wireless applications including Bluetooth solutions, additional versions of the ARM9 architecture, further power and performance optimization of the ARM10 architecture, development of the ARM11 architecture, and enhanced applications software and development tool offerings.

Total engineering headcount increased from 189 at the end of 1998 to 264 at the end of 1999 and 376 at the end of 2000. In addition, there were approximately 30 contractors employed at the end of 1998, 16 in 1999 and 15 in 2000. Grant income receivable from the European Union, which is netted against research and development expenses, amounted to £0.9 million in 1998, fell to £0.2 million in 1999 as many European projects came to an end, and £0.2 million in 2000. The absolute level of grant income is not expected to grow significantly over the next few years.

Sales and marketing. Sales and marketing expenditure increased from £8.8 million in 1998 to £11.6 million in 1999 and £17.8 million in 2000, representing 21% of total revenues in 1998, 19% in 1999 and 18% in 2000. Included in sales and marketing costs for 1998 and 1999 were non-cash compensation expense of £262,000 and £268,000 respectively relating to stock options granted between March 1997 and March 1998. There was no further compensation charge in 2000. Headcount in this area increased from 123 at the end of 1998 to 127 at the end of 1999 and 162 in 2000. The total number of offices with sales people is currently 12 and this enables improved contact with the Company's geographically diverse customer base. New offices were opened in Taiwan, Israel, France and the United States during 2000.

General and administrative. General and administrative headcount increased from 42 at the end of 1998 to 52 at the end of 1999 and 81 at the end of 2000. General and administrative costs rose from £4.9 million in 1998 to £7.7 million in 1999 and £12.3 million in 2000, representing 12%, 12% and 12% of total revenues, respectively. Included in general and administrative costs in 1998 and 1999 were non-cash compensation expense of £181,000 and £184,000 respectively relating to stock options granted between March 1997 and March 1998. There was no further compensation charge in 2000. The increased level of cost in 1999 was due to a number of factors. These included increased office accommodation in Los Gatos, USA and Maidenhead, UK, the compliance costs of being a dual listed company and additional professional and advisory fees. The costs in 2000 were further increased by the legal action taken against picoTurbo for infringement of patents as well as increased recruitment and professional fees. There was a loss on foreign exchange of less than £0.1 million in 1998, an exchange gain of £0.3 million in 1999 and an exchange gain of £0.1 million in 2000. See 'Foreign Currency Fluctuations" below.

Amortization of goodwill and intangible assets. Amortization of £0.1 million of goodwill was made in 1999 in relation to the acquisition of Micrologic Solutions Limited, a private company based in Cambridge, UK, which the Company purchased for £1.3 million in October 1999. Goodwill of approximately £1.1 million is being amortized over a two year period which commenced in November 1999. During 2000, the Company purchased the assets of Infinite Designs Limited in March 2000, EuroMIPS Systems SAS in June 2000 and Allant Software Corporation in September 2000. Amortization of goodwill of £1.3 million was charged to the income statement in 2000. In process research and development costs of £0.2 million relating to the acquisition of Allant Software Corporation was written off in 2000.

During 2000 a license connected with the rights to use a certain debugging technology for use in the Company's development systems products was purchased for £2.8 million. This is being amortized over a period of three years with £0.2 million amortized during 2000.

Interest. Interest grew from £1.9 million in 1998 to £2.3 million in 1999 and £3.9 million in 2000 reflecting the interest earned from the £34.0 million cash raised at the Company's initial public offering in April 1998 and the subsequent strong cash generation in 1998, 1999 and 2000. The Company, which has benefited from slightly higher interest rates during 2000, has invested these cash balances over periods of up to three months during the year as investment over longer periods would not have generated a significantly higher return.

Income before income tax. Income before income tax grew from £9.4 million in 1998 to £18.0 million in 1999 and to £35.4 million in 2000 representing 22%, 29% and 35% of total revenues, respectively. The growth in overall margins was principally attributable to higher royalty revenues as discussed above.

Tax charge. The Company's effective tax rates were 36% in 1998, 10% in 1999 and 17% in 2000. In 1999, tax rates dropped very significantly. The principal reason for this was the establishment of a Qualifying Employee Share Ownership Trust ("QUEST"), a trust set up to acquire new shares in the Company for the benefit of employees and directors of the group. The contribution by the Company to the QUEST for the purchase of 3,900,000 shares by the QUEST in November 1999 is a tax deductible expense under existing UK tax legislation. The Company made two further contributions to the QUEST in March 2000 and November 2000, when 1,483,440 shares and 559,559 shares respectively were purchased by the QUEST. These contributions were again the main reason for the low effective tax rate. Full details with respect to the QUEST are disclosed in footnote 1 of the financial statements.

Liquidity and capital resources. The Company's operating activities provided net cash of £9.6 million, £18.9 million and £43.3 million in 1998, 1999 and 2000, respectively. In 1998, the net change in assets and liabilities was insignificant. In 1999, the main impact on cash generated from operations was an increase in accounts receivable of £4.8 million and a reduction in income taxes payable of £2.6 million, largely as a result of the implementation of the QUEST. In 2000 the significant items impacting on cash generated from operations were the increase in accounts receivable of £4.7 million and the increase in deferred revenue of £5.1 million. The Company believes that, given its current level of business, it has sufficient working capital for the foreseeable future.

At December 31, 2000, the Company recorded approximately £12.7 million in deferred revenues (December 31, 1999: £7.5 million; December 31, 1998: £4.4 million) which represented cash or receivables scheduled to be recognized in revenues in varying amounts over the 12 months following December 31, 2000.

Cash flow from operations has been used to fund the working capital requirements of the Company as well as expenditure on property and equipment. Capital expenditure in 2000 rose to £11.8 million from £5.9 million in 1999 and £6.4 million in 1998. Over 90% of the capital expenditure in 2000 was spent in the UK. In 1998 the Company invested in new design automation tools and established new design centres in Austin, Texas and Maidenhead, UK. During 1999, the Company had expected higher capital expenditure with the addition of the new offices in Cambridge, UK and Los Gatos, California, but approximately £1.5 million of expenditure expected in 1999 was deferred until 2000. In 2000 £4.7 million was spent on improvements to offices. Further investment was made in design tools in the UK and the US with £6.6 million being spent on computers and software. As the Company has adequate cash resources, all of the capital equipment is purchased outright.

During 1996, the Company made an investment in Palmchip Corporation ("Palmchip"). This amounted to £0.2 million in aggregate. In 1997, the Company made a further investment in Palmchip and converted its existing loan to give the Company a 45% shareholding. During 2000 the Company disposed of part of its share in Palmchip for £0.5 million with the result that it is no longer treated as an equity affiliate. The Company's share of the loss of Palmchip up to the disposal date was £0.1 million (1999: £nil; 1998: loss of £0.1 million).

During 1999, the Company purchased the entire share capital of Micrologic Solutions Limited, a 25-person applications software house for a cost of £1.3 million.

During 2000, the Company purchased the entire share capital of EuroMIPS Systems SAS and Allant Software Corporation and the trade and assets of Infinite Designs Limited. The aggregate sum paid for these three acquisitions amounted to £3.4 million.

The Company envisages making strategic investments in the future, in situations where there is an opportunity to further the establishment of the ARM architecture. During 2000, the Company made the following investments: £1.3 million in Parthus Technologies plc, £0.7 million in Cambridge Silicon Radio Limited and £2.1 million in CoWare, Inc.

Cash balances at December 31 were £39.6 million in 1998, £51.8 million in 1999 and £75.3 million in 2000. At December 31, 1998, accounts receivable were £8.9 million compared to £13.7 million at December 31, 1999 and £18.9 million at December 31, 2000 which represented 21%, 22% and 19% of revenues, respectively.

Foreign currency fluctuations. The Company's earnings and liquidity are affected by fluctuations in foreign currency exchange rates, principally the US dollar rate, reflecting the fact that most of the Company's revenues and cash receipts are denominated in US dollars while a high proportion of its costs are in sterling. The movement in the US dollar exchange rate against sterling in 2000 has had a favourable impact on the results of the year, with revenues being translated at higher sterling values than the corresponding dollar amounts in 1999 and 1998.

The Company reduces this US dollar/sterling risk where possible by currency hedging. Due to the high value and timing of receipts on individual licenses and the requirement to settle certain expenses in US dollars, the Company reviews its foreign exchange exposure on a transaction by transaction basis. It then hedges this exposure using forward contracts for the sale of US dollars, which are negotiated with major UK clearing banks. The average size of each forward contract was $1.5 million in 1998, $2.5 million in 1999 and $3.5 million in 2000. The Company does not currently use any other financial instruments or derivatives, although the Company is reviewing the use of other financial instruments such as currency options. The fair values of the financial instruments outstanding at the end of December 31, 1998, 1999 and 2000 are disclosed in footnote 12 to the financial statements. The settlement period of the forward contracts outstanding at December 31, 2000 is between January 1 and April 30, 2000.

Risk factors. The Company believes that its future operating results will continue to be subject to quarterly variations based upon a wide variety of factors. These include the timing of entering into agreements with new licensees, the mixture of license fees, royalties and fees from services, and the introduction of new technology by the Company, the timing of orders from and shipments to systems companies of ARM-based microprocessors from the Company's semiconductor partners and sudden technological change in the microprocessor industry.

Other risks include the reliance on semiconductor partners, dependence upon systems companies, patent protection, attraction and retention of employees, management of growth, competition and vulnerability to general economic conditions. Risk factors are more fully discussed in the Company's annual report on Form 20-F for 2000.

ARM/Consolidated Statements of Income and Comprehensive Income/US Format.

	1998	1999	2000	2000 [1]
	(in thousands, except share data)			
Revenues:				
Product revenues	£35,161	£50,141	**£84,562**	**$126,336**
Service revenues	7,107	11,979	**16,168**	**24,155**
Total revenues	42,268	62,120	**100,730**	**150,491**
Cost of revenues:				
Product costs	3,943	4,613	**4,566**	**6,822**
Service costs	4,373	5,190	**7,081**	**10,579**
Total cost of revenues	8,316	9,803	**11,647**	**17,401**
Gross profit	33,952	52,317	**89,083**	**133,090**
Operating expenses:				
Research and development	12,711	17,151	**26,359**	**39,380**
Sales and marketing	8,758	11,565	**17,841**	**26,655**
General and administrative	4,887	7,715	**12,349**	**18,449**
Amortization of goodwill	5	99	**1,297**	**1,938**
Total operating expenses	26,361	36,530	**57,846**	**86,422**
Income from operations	7,591	15,787	**31,237**	**46,668**
Interest, net	1,911	2,266	**3,912**	**5,845**
Share of loss of equity affiliate	(71)	—	**(85)**	**(127)**
Gain on partial disposal of equity affiliate	—	—	**512**	**765**
Minority interest	(8)	(64)	**(192)**	**(287)**
Income before income tax	9,423	17,989	**35,384**	**52,864**
Provision for income taxes	3,371	1,757	**6,007**	**8,975**
Net income	6,052	16,232	**29,377**	**43,889**
Net income	6,052	16,232	**29,377**	**43,889**
Other comprehensive income:				
Foreign currency adjustments	23	164	**75**	**112**
Unrealized holding gain on available for sale securities	—	—	**2,087**	**3,118**
Total comprehensive income	6,075	16,396	**31,539**	**47,119**
Basic earnings per common share	0.4p [3]	1.7p [3]	**3.0p**	**4.5c**
Earnings per common share (assuming dilution)	0.4p [2], [3]	1.6p [3]	**2.9p**	**4.3c**

(1) US dollar amounts have been translated from sterling at the December 31, 2000 closing rate of £1.00 = $1.4940.
(2) See footnote 4 for details of the antidilutive effect of the preference shares.
(3) Adjusted to reflect the 4 for 1 subdivision of the Company's shares in April 1999 and the 5 for 1 subdivision of the Company's shares in April 2000 where applicable.

See footnote 1 for details of restatement of certain comparative information.

The accompanying notes are an integral part of the financial statements.

	1999	2000	2000 (1)
	(in thousands, except share data)		
Assets			
Current assets:			
Cash and cash equivalents	£51,804	**£75,266**	**$112,447**
Accounts receivable, net of allowances for doubtful debts of £155,000 (1999: £623,000)	13,700	**18,913**	**28,256**
Inventory	199	**385**	**575**
Prepaid expenses and other assets	3,636	**4,652**	**6,950**
Income taxes receivable	1,787	**439**	**656**
Total current assets	71,126	**99,655**	**148,884**
Deferred income taxes	1,758	**740**	**1,106**
Property and equipment, net	9,280	**14,874**	**22,222**
Intangible assets	1,033	**5,440**	**8,127**
Investments	91	**6,634**	**9,911**
Total assets	83,288	**127,343**	**190,250**
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	1,092	**2,049**	**3,061**
Income taxes payable	450	**1,621**	**2,422**
Personnel taxes	391	**590**	**882**
Accrued liabilities	6,600	**9,128**	**13,637**
Deferred revenue	7,528	**12,677**	**18,939**
Total liabilities	16,061	**26,065**	**38,941**
Minority interest	114	**306**	**457**
	16,175	**26,371**	**39,398**
Shareholders' equity (2)			
Ordinary shares: £0.0005 par value; 1,580,000,000 authorized (1999: 1,580,000,000); 1,000,235,371 issued and outstanding (1999: 959,854,025)	480	**500**	**747**
Additional paid-in capital	56,999	**78,035**	**116,584**
Treasury stock, at cost: 10,942,999 ordinary shares (1999: 8,900,000)	(16,808)	**(35,544)**	**(53,103)**
Retained earnings	26,387	**55,764**	**83,312**
Other comprehensive income:			
Unrealized holding gain on available for sale securities	—	**2,087**	**3,118**
Cumulative translation adjustment	55	**130**	**194**
Total shareholders' equity	67,113	**100,972**	**150,852**
Total liabilities and shareholders' equity	83,288	**127,343**	**190,250**

(1) US dollar amounts have been translated from sterling at the December 31, 2000 closing rate of £1.00 = $1.4940.
(2) The number of shares has been adjusted to reflect the 5 for 1 share subdivision which took place in April 2000.

The accompanying notes are an integral part of the financial statements.

ARM/Consolidated Statements of Cash Flows/US Format.

	1998	1999	**2000**	**2000** (1)
	(in thousands, except share data)			
Cash flows from operating activities				
Net income	£6,052	£16,232	**£29,377**	**$43,889**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of tangible and intangible assets	3,088	4,714	**7,777**	**11,619**
Write off of in process research and development	—	—	**150**	**224**
Stock option compensation	723	736	**—**	**—**
Share of loss of equity affiliates	71	—	**85**	**127**
Deferred income taxes	(471)	386	**560**	**837**
Gain on partial disposal of equity affiliate	—	—	**(512)**	**(765)**
Provision for doubtful accounts	235	384	**(248)**	**(371)**
Other	14	60	**262**	**392**
Changes in operating assets and liabilities:				
Accounts receivable	(2,834)	(4,817)	**(4,747)**	**(7,092)**
Inventory	(58)	23	**(184)**	**(275)**
Prepaid expenses and other current assets	(112)	(536)	**(996)**	**(1,488)**
Accounts payable	(178)	164	**957**	**1,430**
Income taxes payable	255	(2,605)	**2,519**	**3,763**
Deferred revenue	704	3,092	**5,149**	**7,693**
Accrued liabilities and other creditors	2,060	1,094	**2,513**	**3,754**
Personnel taxes	71	(59)	**77**	**115**
Net cash provided by operating activities	9,620	18,868	**42,739**	**63,852**
Cash flows from investing activities:				
Receipt from partial disposal of equity affiliate	—	—	**517**	**772**
Purchase of equipment	(6,402)	(3,624)	**(7,182)**	**(10,730)**
Purchase of leasehold improvements	—	(2,276)	**(4,660)**	**(6,962)**
Sale of equipment	38	20	**59**	**88**
Purchase of intangible assets	—	—	**(2,822)**	**(4,216)**
Purchase of investments	(23)	—	**(4,088)**	**(6,107)**
Purchase of subsidiaries, net of cash acquired	—	(1,187)	**(3,414)**	**(5,101)**
Net cash used in investing activities	(6,387)	(7,067)	**(21,590)**	**(32,256)**
Cash flows from financing activities:				
Dividend payment	(4,000)	—	**—**	**—**
Cash received on issue of shares net of issue expenses	34,342	287	**2,320**	**3,466**
Purchase of treasury stock	(1,438)	—	**—**	**—**
Net cash provided by financing activities	28,904	287	**2,320**	**3,466**
Effect of foreign exchange on cash and cash equivalents	49	125	**(7)**	**(10)**
Net increase in cash and cash equivalents	32,186	12,213	**23,462**	**35,052**
Cash and cash equivalents at beginning of period	7,405	39,591	**51,804**	**77,395**
Cash and cash equivalents at end of period	39,591	51,804	**75,266**	**112,447**
Supplemental disclosure of cash flow information:				
Cash paid for income taxes	3,497	4,639	**2,928**	**4,374**
Cash received on interest	1,838	2,293	**3,775**	**5,640**

(1) US dollar amounts have been translated from sterling at the December 31, 2000 closing rate of £1.00 = $1.4940.

The accompanying notes are an integral part of the financial statements.

	Ordinary shares		Preference shares		Additional paid-in capital	Treasury stock	Retained earnings[1]	Other comprehensive income		Total
	Number[2]	Amount	Number	Amount				Cumulative translation adjustment	Unrealized holding gain	
				(in thousands, except share data)						
Balances, January 1, 1998	181,605,400	£91	593,500,000	£297	£4,095	£—	£8,103	£(132)	£—	£12,454
Issue of ordinary shares	137,348,180	69			39,419					39,488
Share issue on exercise of options	31,819,000	15			273					288
Conversion of preference shares	593,500,000	297	(593,500,000)	(297)						—
Net income							6,052			6,052
Stock option compensation					722					722
Tax effect of stock purchase plan					126					126
Dividends (0.5p per share)[2]							(4,000)			(4,000)
Share issue expenses					(5,435)					(5,435)
Currency translation adjustment								23		23
Investment in treasury stock						(1,438)				(1,438)
Balances, December 31, 1998	944,272,580	472	—	—	39,200	(1,438)	10,155	(109)	—	48,280
Issue of ordinary shares	3,900,000	2			15,368					15,370
Share issue on exercise of options	11,681,445	6			281					287
Net income							16,232			16,232
Stock option compensation					736					736
Tax effect of stock purchase plan					1,414					1,414
Currency translation adjustment								164		164
Investment in treasury stock						(15,370)				(15,370)
Balances, December 31, 1999	959,854,025	480	—	—	56,999	(16,808)	26,387	55	—	67,113
Issue of ordinary shares	2,042,999	1			18,735					18,736
Share issue on exercise of options	38,338,347	19			2,301					2,320
Net income							29,377			29,377
Unrealized holding gain on available for sale securities									2,087	2,087
Currency translation adjustment								75		75
Investment in treasury stock						(18,736)				(18,736)
Balances, December 31, 2000	**1,000,235,371**	**500**	**—**	**—**	**78,035**	**(35,544)**	**55,764**	**130**	**2,087**	**100,972**

(1) The amount of shareholders' equity available for distribution to shareholders is the amount of profits determined under UK GAAP in the statutory accounts of the parent company. At December 31, 2000 such distributable profits amounted to £2,580,000.

(2) The number of shares and the dividend per share have been adjusted, where applicable, to reflect the 4 for 1 share subdivision which took place in April 1999 and the 5 for 1 share subdivision which took place in April 2000.

The accompanying notes are an integral part of the financial statements.

1/The Company and a summary of its significant accounting policies.

The business of the Company. ARM Holdings plc and its subsidiary companies (together "the group") design RISC microprocessors and related technology and software, and sell development systems, to enhance the performance, cost-effectiveness and power-efficiency of high-volume embedded applications. The group licenses and sells its technology and products to leading electronics companies, which in turn manufacture, market and sell microprocessors, ASICs and ASSPs based on the group's architecture to systems companies for incorporation into a wide variety of end products. By creating a network of partners, and working with them to best utilize the group's technology, the group is establishing its architecture as a RISC processor for use in many high volume embedded microprocessor applications, including digital cellular phones, modems and automotive functions and for potential use in many growing markets including smart cards and digital video. The group also licenses and sells development systems directly to systems companies and provides consulting and support services to its licensees, systems companies and other systems designers. The group's principal geographic markets are Europe, the United States, Japan, South Korea and Taiwan.

Incorporation and history. ARM is a public limited company incorporated under the laws of England and Wales. The Company was formed on October 16, 1990 as a joint venture between Apple Computer (UK) Limited and Acorn Computers Limited and operated under the name Advanced RISC Machines Holdings Limited until March 10, 1998 when its name was changed to ARM Holdings plc. Its initial public offering was on April 17, 1998.

Group undertakings include ARM Limited (incorporated in the United Kingdom), ARM, INC. (incorporated in the United States), ARM KK (incorporated in Japan), ARM Korea Limited (incorporated in South Korea), EuroMIPS Systems SAS (incorporated in France), Allant Software Corporation (incorporated in the United States), Advanced RISC Machines Limited (incorporated in the United Kingdom), Micrologic Solutions Limited (incorporated in the United Kingdom) and ARM Taiwan Limited (incorporated in Taiwan).

Basis of preparation. The accompanying consolidated financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in the United States ('US GAAP').

Purely for the convenience of the reader, the December 31, 2000 consolidated financial statements have been translated from sterling at the closing rate on December 31, 2000 at £1.00 = $1.4940. Such translations should not be construed as representations that sterling could be so converted into US dollars at that rate or at any other rate.

Principles of consolidation. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Intra-group transactions, including sales, profits, receivables and payables have been eliminated on consolidation.

Equity affiliates. Companies in which the group owns between 20% and 50% of the voting stock are treated as equity affiliates. During the year the group made a partial disposal of its holding in Palmchip Corporation with the result that the remaining holding is below 20% and is therefore treated as an available for sale security. The consolidated statement of income includes the group's share of net income of equity affiliates up to the date of the partial disposal. The remaining investment is included in the consolidated balance sheet at the value of the group's share of net assets at the date of disposal. The group had no equity affiliates at December 31, 2000.

Investments. The group invested in two unlisted companies during the year, one of which was a 3.5% investment in the share capital of CoWare, Inc., a company which develops system-on-chip software for a wide range of applications and the other, being a less than 1% investment, in the share capital of Cambridge Silicon Radio Limited, an intellectual property company which develops Bluetooth solutions. These investments are included in the consolidated balance sheet at cost less provision for impairment where necessary. The group also holds 3% of the share capital of Sirius Communications NV whose principal business activity is the design and sale of spread spectrum transceivers which can be integrated into microcontrollers. Full provision has been made against this investment. All investments are held by ARM Limited.

The group has also made an investment in Parthus Technologies plc. This investment is listed on the London Stock Exchange and is included in the consolidated balance sheet at market value at the balance sheet date. The increase in the value of the investment net of related taxes is included in accumulated other comprehensive income within shareholders' equity. The market value at December 31, 2000 was £3,827,000.

Goodwill and intangible assets. Purchased goodwill and licenses to use technology are capitalized and amortized on a straight-line basis over a prudent estimate of the time that the Company is expected to benefit from it. Provision is made against the carrying value of goodwill where an impairment in value is deemed to have occurred. An independent valuation is made of any in process research and development on acquisition and the amount written off immediately. One such project was acquired during the year to December 31, 2000 and was independently valued at £150,000. Due to the immaterial nature of this project no further disclosures have been given in respect of the nature, completion or risks of the project. The technological feasibility of the in process technology had not yet been established and the technology has no alternative future use.

1/The Company and a summary of its significant accounting policies/continued.

Revenue recognition. Revenue consists of license fees received under the terms of license agreements with customers to enable them to use the group's intellectual property ('IP') which is customized to each customer's manufacturing process. The group licenses its IP to leading electronics companies which in turn manufacture, market and sell microprocessors, ASICs and ASSPs based on the group's architecture to systems companies for incorporation into a wide variety of end products. The group's IP consists of software and related documentation which enables a customer to design and manufacture microprocessors and related technology and software. Each license is designed to meet the specific requirements of each customer and is generally not time limited in its application. In general the time between the signing of a license and final customer acceptance is between nine and 15 months with most time allocated to the period between delivery and acceptance of the technology. Delivery generally occurs within a short time period after signing. The customer obtains license rights to the IP at the time of signing. In addition, the customer obtains ownership of the licensed rights to the in process customization as well as the completed customization. License fees are invoiced according to an agreed set of milestone payments. Typically the first milestone is on signing of the contract, the second is on delivery of the customized IP (being the IP and other technical information relating to the product licensed) and the third is related to acceptance of the technology by the licensee. No upgrades or modifications to the licensed IP are provided. Following customer acceptance, the group has no further obligations under the license agreement.

In accordance with SOP 97-2 'Software revenue recognition", where agreements involve multiple elements, the entire fee from such arrangements has been allocated to each of the individual elements based on each element's fair value. Vendor specific objective evidence of fair value is determined by reference to license agreements with other customers where elements are sold separately.

In accordance with SOP 81-1 "Accounting for performance of construction-type and certain production type contracts", as license agreements includ e deliverables that require "significant production, modification or customization", contract accounting is applied. Revenues from license fees a re recognized based on the percentage to completion method over the period from signing of the license to customer acceptance. The amount of revenue recognized is based on the total license fees under the license agreement and the percentage to completion achieved. The percentage to completion is measured by monitoring progress using records of actual time incurred to date in the project compared to the total estimated project requirement, which corresponds to the costs of earned revenues.

Estimates of total project requirement are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. Under the percentage to completion method, provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined.

Agreements including rights to unspecified products are accounted for using subscription accounting, revenue from the arrangement being recognized over the term of the arrangement or an estimate of the economic life of the products offered, beginning with the delivery of the first product.

In addition to the license fees, contracts generally contain an agreement to provide post contract support (support, maintenance and training) which consists of an identified customer contact at the group and telephonic or e-mail support. Fees for post contract support which take place after customer acceptance are specified in the contract. The fees are determined based on the group's price list as if sold separately. The price list is established and regularly reviewed by management. Revenue for post contract support is recognized on a straight-line basis over the period for which support and maintenance is contractually agreed by the group with the licensee.

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. At that time, the group has no further obligations. Services (such as training) that the group provides which are not essential to the functionality of the IP are separately stated and priced in the contract and therefore accounted for separately. Revenue is recognized as services are performed and collectability is probable.

The excess of license fees invoiced over revenue recognized in respect of such fees is recorded as a deferred revenue liability.

Royalty revenues are earned on sales by the group's customers of products containing ARM technology. Revenues are recognized when ARM receives notification from the customer of product sales, or receives payment of any fixed royalties, normally quarterly in arrears.

Revenue from consulting is recognized when the service has been provided and all obligations to the customer under the consulting agreement have been fulfilled. Consulting costs are recognized when incurred.

Research and development. All ongoing research and development expenditure is expensed in the period in which it is incurred.

General and administrative costs. Certain general and administrative costs were reallocated to other cost headings, in 1999, to reflect the fact that other departments make use of such facilities. Comparative information for 1998 was restated to reflect this. The impact was to increase research and development and sales and marketing costs in 1998 by £1,096,000 and £1,147,000 respectively.

In addition, exchange gains of £141,000 (1999: gain of £277,000; 1998: loss of £46,000) are now included in general and administrative costs. In 1998 recognized gains and losses were recorded within interest. The effect of restating the comparatives was to increase general and administrative costs by £46,000 in 1998.

1/The Company and a summary of its significant accounting policies/continued.

Grants. Grants in respect of specific research and development projects are receivable from the European Commission, a European organization which funds certain research and development activities on application to it for the purposes of furthering research and development activities within the European Union. The group retains significant rights to intellectual property developed under projects which are funded under these arrangements. Grants received are intended to cover 50% of expected project costs. Grant income is recognized over the period of the project in line with the costs incurred. Unconditional undertakings have been received from the European Commission to provide the funding, and there is no obligation to refund any amounts already received. Amounts receivable under these arrangements in the year ended December 31, 2000 were £186,000 (1999: £248,000; 1998: £857,000) and were netted against related research and development costs.

Pension costs. The group contributes to defined contribution plans covering substantially all employees in Europe and the United States and to government pension schemes for employees in Japan and South Korea. The group contributes to these plans based upon various fixed percentages of employee compensation and such contributions are expensed as incurred. The amount of contributions expensed by the group for the years ended December 31, 1998, 1999 and 2000 were £628,000, £853,000 and £1,160,000, respectively.

Cash equivalents. The group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Inventory. Inventory is stated at the lower of cost and net realizable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective inventory.

Property and equipment. The cost of property and equipment is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of property and equipment, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal economic lives used for this purpose are:

Freehold buildings	25 years
Leasehold improvements	five years or term of lease, whichever is shorter
Computers and software	three years
Fixtures and fittings	five – ten years
Motor vehicles	four years

Provision is made against the carrying value of tangible fixed assets where an impairment in value is deemed to have occurred.

Operating leases. Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Currency translation. The functional currency for the group's operations is the local currency in which it operates.

The assets and liabilities of subsidiaries denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Statements of income of overseas subsidiaries are translated at the average exchange rate for the period. Translation differences are taken to the cumulative translation adjustment.

The group utilizes forward exchange contracts to hedge actual transactions related to accounts receivable denominated in a currency other than the functional currency of the business. The group's forward exchange contracts do not subject the group to risk from exchange rate movements because the gains and losses on such contracts offset losses and gains, respectively, on the transactions being hedged. Unrealized gains and losses on the forward exchange contracts are deferred and included in the measurement of the related foreign currency transaction. All recognized gains and losses resulting from the settlement of the contracts are recorded within general and administrative costs in the income statement. The group does not enter into foreign exchange contracts for the purpose of hedging anticipated transactions.

Other transactions denominated in foreign currencies have been translated into sterling at actual rates of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies other than those specifically hedged have been translated at rates ruling at the balance sheet date. Exchange differences have been included in general and administrative costs. In 1998 gains and losses were recorded within interest. The effect of restating the comparative was to increase interest receivable by £46,000 in 1998.

Income taxes. Income taxes are computed using the liability method. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established against deferred tax assets where it is more likely than not that some portion or all of the asset will not be realized.

Earnings per share. Basic earnings per common share is computed based on the weighted average number of ordinary shares. Earnings per common share (assuming dilution) is computed by including potential common shares and the conversion of convertible preference shares where the effect of their inclusion would be dilutive. The diluted share base for the 12 months ended December 31, 2000 excludes incremental shares of approximately 90,000 related to employee stock options. These shares are excluded due to their antidilutive effect as a result of the exercise price of these shares being higher than the market price. The ordinary equivalent shares for share options were determined using the treasury stock method.

1/The Company and a summary of its significant accounting policies/continued.

Accounting for stock based compensation. The group has elected to use the intrinsic value-based method to account for all of its employee stock based compensation plans. Under APB Opinion No. 25, "Accounting for Stock Issued to Employees", the group has recorded no compensation costs related to its stock options granted in the year ended December 31,1996 because the exercise price of each option equals or exceeds the fair value of the underlying stock as of the grant date for each stock option. Compensation cost has been recognized for stock options granted in the year ended December 31, 1997 and in March 1998 because the exercise price of the options is less than the fair value of the underlying stock as of the grant date for each stock option. The group has adopted the disclosure requirements of the Statement of Financial Accounting Standards ('SFAS') No. 123, "Accounting for Stock Based Compensation".

Employee share ownership plans. Treasury stock represents the cost of shares in the Company held by the Employee Benefit Trust ('ESOP') and the Qualifying Employee Share Ownership Trust ('QUEST').

The ESOP was set up on April 16, 1998 to facilitate the recruitment, retention and motivation of employees. No options had been granted over these shares and no shares had been allocated at December 31, 2000. The market value of unearned shares at December 31, 2000 was approximately £25,300,000. All costs relating to the schemes are recognized in the income statement as they accrue and the ESOP has waived the right to receive dividends of over and above 0.01p per share on all shares held.

The group's QUEST was established by the Company during 1999 to acquire new shares in the Company for the benefit of employees and directors of the group. 2,042,999 (1999: 3,900,000) shares were purchased in 2000 in two separate transactions detailed below.

On March 13, 2000 and November 7, 2000, the Company provided £14,445,000 and £4,291,000 respectively (1999: £15,370,000) for this purpose, of which £14,018,000 and £3,769,000 respectively, being £17,787,000 in total (1999: £14,411,000), was by way of a gift and £427,000 and £522,000 respectively, being £949,000 in total (1999: £959,000), was by way of a loan. On the same dates, the QUEST subscribed at market value for 1,483,440 and 559,559 respectively (1999: 3,900,000) of the Company's 0.05p ordinary shares. The shares rank pari passu in all respects with the existing ordinary shares. They will be allocated to employees and directors to satisfy their options granted under the Company's Save As You Earn Option Schemes. Under the terms of the trust deed, dividends have been waived on the shares held by the QUEST, and all costs relating to the scheme are recognized in the income statement as they accrue.

The cost of all of the shares held by the ESOP and the QUEST has been treated as treasury stock. The excess of the subscription price over the nominal value has been taken to additional paid-in capital. For the purpose of earnings per share calculations, the shares are treated as cancelled until such time as they vest unconditionally.

Employer's taxes on share options. Employer's National Insurance in the UK and equivalent taxes in other jurisdictions are payable on the exercise of certain share options issued to employees in certain tax jurisdictions. No provision has been made for the employer's taxes on these share options. These amounts will be recognized in the consolidated income statement when paid.

Use of estimates. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Recently issued accounting standards. In 1998, the US Financial Accounting Standards Board issued SFAS Number 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instr uments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The group will adopt the provisions of this statement in the forthcoming financial year. The Company will not meet the criteria for hedge accounting under SFAS 133 and no changes to amounts recognized are expected to result.

Companies Act 1985. These financial statements do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985 of Great Britain (the "Companies Act"). The Company's statutory accounts, which are its primary financial statements, are prepared in accordance with accounting principles generally accepted in the United Kingdom ('UK GAAP') in compliance with the Companies Act and are presented in pounds sterling. Statutory accounts (upon which the auditors gave unqualified reports under Section 235 of the Companies Act which did not contain statements under sub-sections 237(2) and (3) of the Companies Act) for the years ended December 31, 1998 and 1999 have been, and those for the year ended December 31, 2000 will be, delivered to the Registrar of Companies for England and Wales. Dividends are required to be declared in sterling out of profits available for that purpose as determined in accordance with UK GAAP and the Companies Act.

2/Related party transactions.

Until the partial disposal of Palmchip Corporation the directors regarded that company as a related party by virtue of its being an associated undertaking; no disclosure has been made of transactions since Palmchip ceased to be a related party. Acorn Group plc was considered to be a related party until June 1999 because it had a 24% interest in the equity share capital of the Company until this date, and no disclosure has been made of transactions since that date. Micrologic Solutions Limited is a related party for 1999 and 2000 since the group acquired 100% of its share capital during 1999. Transactions after the date of acquisition have been eliminated on consolidation and have not been disclosed.

Details of transactions between these parties and the Company's wholly owned subsidiary, ARM Limited, are as follows:

Micrologic Solutions Limited. ARM Limited purchased software services to the value of £94,960 during 1999 up to the date of acquisition.

Palmchip Corporation. There were no purchases up to the date of partial disposal (1999: £189,456).

ARM Limited made a loan of £248,000 to Palmchip during 1999 against which a full provision was made at December 31, 1999. The loan was repaid during 2000.

At December 31, 1999 a trading balance of £40,000 remained outstanding, which has since been repaid.

Acorn Group plc. On February 2, 1999 the group completed the purchase for £190,000 of the leasehold interest in a 13,000 square foot building from Element 14 Limited, a wholly owned subsidiary of Acorn Group plc, a transaction supported by independent valuation.

3/Income taxes.

Income before income tax is analyzed as follows:

	Year ended December 31,		
	1998	1999	**2000**
		(in thousands)	
United Kingdom	£8,373	£16,100	**£32,568**
Foreign	1,050	1,889	**2,816**
	9,423	17,989	**35,384**

The provision for income taxes consisted of:

	Year ended December 31,		
	1998	1999	**2000**
		(in thousands)	
Current:			
United Kingdom	£3,363	£1,228	**£4,968**
Foreign	479	1,639	**479**
Total current	3,842	2,867	**5,447**
Deferred:			
United Kingdom	(336)	(230)	**72**
Foreign	(135)	(880)	**488**
Total deferred	(471)	(1,110)	**560**
Total provision for income taxes	3,371	1,757	**6,007**

Included in the provision for income taxes is a current tax charge of £nil (1999: £1,163,000; 1998: £126,000) and a deferred tax charge of £617,000 (1999: credit of £880,000; 1998: £nil) in relation to employee stock options.

The taxation charge for the year has been reduced by £5,331,000 (1999: £4,359,000; 1998: £nil) following a payment of £17,787,000 (1999: £14,411,000; 1998: £nil) to the QUEST detailed in footnote 1.

3/Income taxes/continued.

Total income tax expense differs from the amounts computed by applying the UK statutory income tax rate of 30% for 2000, 30% for 1999 and 31% for 1998 to income before income tax as a result of the following:

	Year ended December 31,		
	1998	1999	**2000**
		(in thousands)	
UK statutory rate 30% (1999: 30%; 1998: 31%)	£2,921	£5,442	**£10,615**
Permanent differences arising on payment to QUEST	—	(4,359)	**(5,331)**
Permanent differences – other [(1)]	300	551	**690**
Differences in statutory rates of foreign countries	154	144	**53**
Other, net	(4)	(21)	**(20)**
	3,371	1,757	**6,007**

[(1)] Permanent differences comprise permanent adjustments, non-deductible stock option compensation and tax sparing.

Significant components of the deferred tax assets are as follows:

	Year ended December 31,		
	1998	1999	**2000**
		(in thousands)	
Fixed asset temporary differences	£307	£924	**£852**
Temporary difference on available for sale securities	—	—	**(458)**
Non-deductible accruals and reserves	423	(46)	**346**
Losses carried forward	—	880	**1,710**
Total deferred tax assets	730	1,758	**2,450**
Valuation allowance	—	—	**(1,710)**
Net deferred tax assets	730	1,758	**740**

UK income taxes have not been provided at December 31, 2000 on unremitted earnings of approximately £4,641,000 (1999: £2,700,000; 1998: £1,600,000) of subsidiaries located outside the United Kingdom as such earnings are considered to be permanently invested. If these earnings were to be remitted without offsetting tax credits in the United Kingdom withholding taxes would be approximately £232,000 (1999: £155,000; 1998: £80,000).

Losses in excess of £5,000,000 can be carried forward for periods of up to 20 years; losses of approximately £300,000 can be carried forward until 2003.

4/Earnings per share.

Under the strict rules of SFAS 128,"Earnings per share", the Company's convertible preference shares in 1998 had to be omitted from the calculation of diluted earnings per share for 1998 as the related dividend, which was a one-off dividend payable on the Company's initial public offering, had an antidilutive effect on diluted earnings per share. The preference dividend also reduced the income available to common shareholders for the calculation of basic earnings per share. The number of preference shares deemed to have had an antidilutive effect were 173,985,000 (after adjusting for the subdivisions of shares in 1999 and 2000), representing potential common shares prior to conversion. The diluted earnings per share calculated including these shares as potential common shares and based on net income before the preference dividend was 0.6 pence per share, after adjusting for the subdivisions of shares in 1999 and 2000.

	For the year ended December 31, 1998		
	Income	Shares [(1)]	Per share amount [(1)]
Net income	£6,052,000		
Convertible preference dividend	(2,959,014)		
Basic EPS:			
Income available to common stockholders	3,092,986	721,525,740	0.4p
Effect of dilutive securities:			
Stock options		73,436,660	
Diluted EPS excluding preference dividend and preference shares prior to conversion	3,092,986	794,962,400	0.4p

	For the year ended December 31, 1999		
	Income	Shares [(1)]	Per share amount [(1)]
Net income	£16,232,000		
Basic EPS:			
Income available to common stockholders	16,232,000	945,322,165	1.7p
Effect of dilutive securities:			
Stock options		74,062,990	
Diluted EPS:			
Income available to common stockholders plus assumed conversion	16,232,000	1,019,385,155	1.6p

	For the year ended December 31, 2000		
	Income	**Shares**	**Per share amount**
Net income	**£29,377,000**		
Basic EPS:			
Income available to common stockholders	**29,377,000**	**970,947,067**	**3.0p**
Effect of dilutive securities:			
Stock options		**57,329,109**	
Diluted EPS:			
Income available to common stockholders plus assumed conversion	**29,377,000**	**1,028,276,176**	**2.9p**

(1) The number of shares and the per share amount have been adjusted, where applicable, to reflect the 4 for 1 subdivision which took place in April 1999 and the 5 for 1 subdivision which took place in April 2000.

5/Business risks and credit concentration.

The group operates in the intensely competitive semiconductor industry which has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns and heightened foreign and domestic competition. Significant technological changes in the industry could affect operating results.

Financial instruments that potentially subject the group to concentrations of credit risk comprise principally cash and cash equivalents and accounts receivable. The group generally does not require collateral on accounts receivable, as the majority of the group's customers are large, well established companies. The group has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

The group markets and sells to a relatively small number of customers with significantly large value transactions. For further information see footnote 11. At December 31, 2000 one customer accounted for 10.4% of accounts receivable. At December 31, 1999 two customers accounted for 13.8% and 13.2% of accounts receivable.

As of December 31, 1999 and 2000 the group's cash and cash equivalents were deposited with major financial institutions in the form of money market deposits for varying periods of up to three months.

6/Investments.

The group made three acquisitions in the year for total cash consideration of £3,432,000. On March 31, 2000 the business and assets of Infinite Designs Limited were purchased for cash consideration of £375,000; on June 21, 2000 all of the issued share capital of EuroMIPS Systems SAS was purchased for cash consideration of £864,000; and on September 18, 2000 all of the issued share capital of Allant Software Corporation was purchased for cash consideration of £2,193,000.

Further to the cash consideration for the cost of the acquisitions, the acquisition agreements provide for cash bonuses and payments for post acquisition pre-defined services provided by employees. These are being treated as payroll costs of the periods to which the services relate.

Following a detailed review of the acquired company's balance sheets and their accounting policies it was considered that no fair value adjustments were necessary.

Details of the aggregate net assets acquired and aggregate goodwill arising on acquisition were as follows:

	2000 (in thousands)
Property and equipment	£45
Inventory	2
Accounts receivable	238
Accounts payable	(137)
Cash and cash equivalents	18
Net assets acquired	166
Goodwill	3,116
In process research and development	150
Consideration satisfied by cash	3,432

The combinations have been accounted for using the purchase method.

Unaudited proforma results of the Company and the acquired businesses have not been presented as the acquired businesses are immaterial to the Company's results.

Following an independent valuation of the in process research and development acquired with Allant Software Corporation, £150,000 was written off through the income statement.

In March 2000, the group disposed of part of its shareholding in Palmchip Corporation, reducing its holding to below 20%. The group made a £512,000 profit on the sale of these shares.

7/Property and equipment.

	December 31, 1999	December 31, 2000
	(in thousands)	
Owned buildings	£190	**£190**
Construction in progress – leasehold improvements	1,436	**1,596**
Leasehold improvements	1,866	**6,354**
Computers	6,064	**7,889**
Software	9,060	**13,961**
Fixtures, fittings and motor vehicles	1,959	**2,434**
	20,575	**32,424**
Less: accumulated depreciation and amortization	(11,295)	**(17,550)**
Property and equipment, net	9,280	**14,874**

Depreciation charged to income for the years ended December 31, 1998, 1999 and 2000 was £3,083,000, £4,581,000 and £6,246,000, respectively.

8/Intangible fixed assets.

	Goodwill 1999	License 1999	Total 1999	Goodwill 2000	License 2000	Total 2000
	(in thousands)			(in thousands)		
At cost	£1,127	—	£1,127	**£4,243**	**£2,822**	**£7,065**
Less: accumulated amortization	94	—	94	**1,391**	**234**	**1,625**
Net	1,033	—	1,033	**2,852**	**2,588**	**5,440**

Amortization charged to income for the years ended December 31, 1998, 1999 and 2000 was £5,000, £133,000 and £1,531,000, respectively.

Goodwill, being the difference between the fair value of the consideration and the fair value of the assets acquired, arose on consolidation of the following subsidiaries:

- Micrologic Solutions Limited, purchased in October 1999;
- EuroMIPS Systems SAS, purchased in June 2000 for cash consideration of £764,000 and associated costs of £100,000. Goodwill of £779,000 arose on this acquisition;
- Allant Software Corporation, purchased in September 2000 for cash consideration of £2,124,000 and associated costs of £69,000: goodwill of £1,962,000 arose on this acquisition; £150,000 of in process research and development was written off immediately; and
- Infinite Designs Limited, purchased in March 2000 for cash consideration of £375,000: goodwill of £375,000 arose on this acquisition.

Goodwill has been amortized on a straight-line basis over periods of up to three years, determined in each case with reference to employee turnover rates in the industry and the individual technology acquired with the acquisitions.

A license to use certain debug technology was purchased during the year and is being amortised on a straight-line basis over a period of three years. The amortization period has been determined according to estimated useful economic life of the license.

9/Shareholders' equity.

Share capital. There was a subdivision of shares in April 1999. Shareholders received four shares with a nominal value of 0.25 pence for every one share held with a nominal value of 1p. There was a further subdivision of shares in April 2000. Shareholders received five shares with a nominal value of 0.05 pence per share for every one share held with a nominal value of 0.25 pence.

On November 5, 1999 a QUEST was formed which purchased 3,900,000 ordinary shares of 0.05 pence each, which were newly issued by the Company. On March 13, 2000 the QUEST purchased 1,483,440 ordinary shares of 0.05p and on November 7, 2000 the QUEST purchased a further 559,559 ordinary shares of 0.05 pence each, which were newly issued by the Company. These are for the purpose of satisfying the exercise of share options relating to the employee Save As You Earn schemes.

During 2000, 38,338,347 shares were issued following the exercise of the same number of options.

Share options. The board is authorized to issue options to acquire ordinary shares in the Company up to a maximum of 10% of the issued ordinary share capital in any five year period. Options issued prior to the listing of the Company are excluded from this calculation.

Under the UK Inland Revenue Approved Incentive Share Option Plan (the "Approved Scheme"), the Company may grant options to directors and employees meeting certain eligibility requirements. Options under the Approved Scheme are exercisable between three and ten years after their issue, after which time the options expire.

Under the Company's Executive Scheme, for which it has not sought approval from the UK Inland Revenue, options are exercisable at 25% per annum over a four year vesting period. Options are exercisable up to seven years after issue. The Company also operates the US ISO Share Option Plan (the 'Option Plan') which is substantially the same as the Executive Scheme.

In 1998, the Company set up two savings related share option schemes for all employees and executive directors of the group, one of which has since lapsed. The number of options granted is related to the value of savings made by the employee. The period of savings is three or five years except for employees of ARM, INC. where the period is two years. The option price is currently set at 85% of the market share price prior to the grant and the right to exercise normally only arises for a six-month period once the savings have been completed except for ARM, INC. where the right to exercise normally only arises for a three-month period once the savings have been completed. The Company set up two further savings related option schemes in each of 1999 and 2000 for all employees and executive directors of the group, which have the same characteristics as those schemes set up in 1998.

Option activity is summarized as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Balances, December 31, 1997	96,834,300	£0.018
Granted in year	12,349,480	£0.232
Lapsed in year	(1,127,000)	£0.064
Exercised in year	(31,819,000)	£0.008
Balances, December 31, 1998	76,237,780	£0.056
Granted in year	17,387,925	£1.266
Lapsed in year	(1,130,045)	£0.372
Exercised in year	(11,681,445)	£0.026
Balances, December 31, 1999	80,814,215	£0.318
Granted in year	5,867,630	£6.171
Lapsed in year	(1,341,025)	£1.884
Exercised in year	(38,338,347)	£0.060
Balances, December 31, 2000	**47,002,473**	**£1.214**

The weighted average grant-date fair value of options granted during the year was equal to the weighted average exercise price of those options. The weighted average exercise price of options exercisable at December 31, 2000 was £0.05 (December 31, 1999: £0.02).

9/Shareholders' equity/continued.

The following options over ordinary shares were in existence at December 31, 2000.

Number of ordinary shares	Exercise price per share	Remaining contractual life	Exercise period	**Exercisable at December 31, 2000**
860,000	£0.0045	2.1 years	1996 – 2003	**860,000**
740,000	£0.0095	3.1 years	1997 – 2004	**740,000**
880,000	£0.0175	4.1 years	1998 – 2005	**880,000**
3,042,500	£0.02	5.5 years	1999 – 2006	**3,042,500**
600,000	£0.02	2.5 years	1999 – 2004	**600,000**
5,909,800	£0.026	6.2 years	2000 – 2007	**5,909,800**
580,030	£0.026	1.2 years	1998 – 2002	**95,030**
2,100,000	£0.026	6.2 years	2000 – 2004	**2,100,000**
191,340	£0.026	1.3 years	1998 – 2002	**3,765**
53,200	£0.026	6.3 years	2000 – 2004	**53,200**
15,000	£0.0425	1.4 years	1998 – 2002	—
120,000	£0.0425	6.4 years	2000 – 2004	**120,000**
47,505	£0.0625	1.5 years	1998 – 2002	**17,505**
130,000	£0.0625	6.5 years	2000 – 2004	**130,000**
125,020	£0.0625	1.8 years	1998 – 2002	**30,020**
625,000	£0.0625	6.8 years	2000 – 2004	**625,000**
30,000	£0.0625	2.0 years	1998 – 2002	**15,000**
700,000	£0.0625	7.0 years	2000 – 2004	**700,000**
1,640,000	£0.1125	—	2001 – 2008	—
760,081	£0.1125	2.2 years	1999 – 2003	**40,081**
203,827	£0.3875	2.4 years	1999 – 2003	**39,827**
409,000	£0.3875	—	2001 – 2005	—
416,000	£0.5275	—	2001 – 2008	—
138,071	£0.5275	2.6 years	1999 – 2003	**15,571**
211,000	£0.405	—	2001 – 2008	—
54,752	£0.405	2.8 years	1999 – 2003	**7,252**
4,026,580	£1.224	—	2002 – 2009	—
3,085,344	£1.224	3.2 years	2000 – 2004	**291,594**
7,290,420	£1.224	—	2002 – 2006	—
173,260	£1.338	—	2002 – 2009	—
41,254	£1.338	3.3 years	2000 – 2004	**4**
42,740	£1.338	—	2002 – 2006	—
75,490	£1.765	—	2002 – 2009	—
60,002	£1.765	3.6 years	2000 – 2004	**7,502**
26,010	£1.765	—	2002 – 2006	—
98,610	£4.26	—	2002 – 2009	—
84,640	£4.26	—	2002 – 2006	—
133,875	£7.738	—	2003 – 2010	—
64,000	£7.738	—	2001 – 2005	—
76,125	£7.738	—	2003 – 2007	—
85,850	£6.136	—	2003 – 2010	—
10,000	£6.136	—	2001 – 2005	—
36,150	£6.136	—	2003 – 2007	—
50,000	£6.27	—	2001 – 2005	—
429,306	£6.155	—	2003 – 2010	—
921,750	£6.155	—	2001 – 2005	—
2,971,826	£6.155	—	2001 – 2007	—
49,250	£6.7	—	2001 – 2005	—
185,000	£6.7	—	2001 – 2007	—
154,000	£6.33	—	2001 – 2005	—
292,500	£6.33	—	2001 – 2007	—
1,115,920 (1)	£0.2445	—	2003 – 2003	—
3,978,040 (1)	£0.2445	—	2001 – 2001	—
377,045 (3)	£1.099	—	2002 – 2002	—
109,405 (2)	£1.099	—	2001 – 2001	—
145,815 (3)	£1.099	—	2004 – 2004	—
142,119 (4)	£5.65	—	2003 – 2003	—
29,976 (4)	£5.65	—	2005 – 2005	—
58,045 (4)	£5.65	—	2002 – 2002	—
47,002,473				**16,323,651**

(1) These relate to options granted on April 17, 1998 under the Company's savings related share option schemes.
(2) These relate to options granted on May 19, 1999 under the Company's savings related share option schemes.
(3) These relate to options granted on June 10, 1999 under the Company's savings related share option schemes.
(4) These relate to options granted on May 19, 2000 under the Company's savings related share option schemes.

All option information presented above has been restated, where applicable, to reflect the 4 for 1 share subdivision in April 1999 and the 5 for 1 share subdivision in April 2000.

9/Shareholders' equity/continued.

At December 31, 2000, the Company had three share option plans and five savings related share option schemes. The Company applies APB Opinion Number 25 and related interpretations in accounting for its plans. Non-cash compensation relating to stock options granted in the year ended December 31, 1997 and in March 1998 at an exercise price below the fair value of the underlying stock on the grant date was recognized in an amount of £723,000 in the year ended December 31, 1998 and £736,000 in the year ended December 31, 1999. No compensation cost remained to be recognized in the year ended December 31, 2000. Such cost has been allocated according to the functional areas of the relevant employees as research and development expense in an amount of £nil (1999: £284,000; 1998: £280,000), sales and marketing expense in an amount of £nil (1999: £268,000; 1998: £262,000) and general and administrative expenses in an amount of £nil (1999: £184,000; 1998: £181,000).

Had compensation cost for the Company's share option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS Number 123 "Accounting for stock-based compensation", the group's net income and earnings per share would have been changed to the pro forma amounts indicated below:

	Year ended December 31,		
	1998	1999	**2000**
		(in thousands)	
Net income:			
As reported	£6,052	£16,232	**£29,377**
Pro forma	£6,132	£13,657	**£21,112**
Basic earnings per common share:			
As reported	0.4p	1.7p	**3.0p**
Pro forma	0.4p	1.4p	**2.2p**
Diluted earnings per common share:			
As reported	0.4p	1.6p	**2.9p**
Pro forma	0.4p	1.3p	**2.1p**

The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2000, 1999 and 1998: risk free interest rate of 6% (1999: 4.85%; 1998: 6.1%); expected life of four years; volatility of 74% (1999: 80%; 1998: 60%); and no dividends.

The earnings per share disclosures noted above have been restated to reflect the share subdivisions in April 1999 and April 2000 as applicable.

10/Commitments.

The group leases its office facilities and certain equipment under non-cancellable operating lease agreements which expire at various dates through 2018.

Future minimum lease commitments at December 31, 2000 are as follows:

Years ending December 31,	Operating leases (in thousands)
2001	£2,749
2002	2,337
2003	2,293
2004	2,248
2005	1,690
Thereafter	14,215
Total minimum lease payments	25,532

Rental expense under operating leases totalled £433,000, £1,291,000 and £2,746,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

11/Geographic and segment information.

The group operates in, and is managed as, a single segment.

The following analysis is of revenues by geographical segment and origin and long-lived assets by group companies in each territory:

	Year ended December 31, 1998	1999	2000
	(in thousands)		
Revenues (by market destination)			
Europe	£6,713	£8,169	**£20,616**
United States	22,442	33,091	**55,233**
Japan	12,295	16,898	**18,007**
Asia Pacific excluding Japan	818	3,962	**6,874**
Total revenues	42,268	62,120	**100,730**

The group's exports from the United Kingdom were £39,274,000, £57,610,000 and £87,096,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

	Year ended December 31, 1998	1999	2000
	(in thousands)		
Revenues (by origin)			
Europe	£40,014	£58,210	**£90,248**
United States	1,502	2,340	**5,608**
Asia Pacific	752	1,570	**4,874**
Total revenues	42,268	62,120	**100,730**
Long-lived assets			
Europe	7,275	8,574	**23,194**
United States	625	1,730	**3,677**
Asia Pacific	133	100	**77**
Total long-lived assets	8,033	10,404	**26,948**

In 1998 and 1999 no single customer accounted for more than 10% of total revenues. In 2000, one customer in the United States accounted for 15% of total revenues.

12/Fair values of financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and cash equivalents and accounts receivable. The carrying amount approximates fair value because of the short maturity of those instruments.

Foreign currency forward contracts. The fair value of foreign currency forward contracts is estimated using the settlement rates prevailing at the period end.

The estimated fair values of the group's financial instruments are as follows:

	Year ended December 31, 1998		1999		2000	
	Carrying amount	Fair value	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	(in thousands)					
Cash and cash equivalents	£39,591	£39,591	£51,804	£51,804	**£75,266**	**£75,266**
Accounts receivable	8,905	8,905	13,700	13,700	**18,913**	**18,913**
Foreign currency contracts	23	23	2	2	**551**	**551**

13/Post balance sheet events.

On February 1, 2001, the group completed the purchase of part of the business of Noral Micrologics Limited, a company located in Blackburn, UK, for a total consideration of £1,200,000.

To the board of directors and shareholders of ARM Holdings plc. In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flow present fairly, in all material respects, the financial position of ARM Holdings plc and its subsidiaries at December 31, 2000 and 1999 and the results of their operations and their cash flow for the years ended December 31, 2000, 1999 and 1998 in conformity with generally accepted accounting principles in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion expressed above.

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Section divider photograph shows the underside of an ARM10 based integrated circuit.

Photography courtesy of Andrew Syred, C-I photography, Tim MacPherson and John Ward.

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More information on ARM is available at http://www.arm.com

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