

# Governance and Financial Report



ARM Holdings plc Annual Report 2014  
Governance and Financial Report

Welcome to our Governance and Financial Report. This explains  
our commitment to a strong and effective governance system,  
corporate responsibility and the highest ethical standards, and our  
detailed financial statements.



# 2014 reporting suite

ARM has designed its 2014 reports to provide a comprehensive overview of the business. More detailed information is available online at [www.arm.com/ir](http://www.arm.com/ir).

## How to use this document

ARM's Annual Report consists of two documents. The Strategic Report will give you a comprehensive and concise overview of the key information about ARM, and the Governance and Financial Report contains more details about our performance in 2014. More information can be found in the Corporate Responsibility report, and on the website at [www.arm.com/ir](http://www.arm.com/ir).

## Governance and Financial Report

The Governance and Financial Report explains the way we operate, our approach to corporate governance, how we remunerate management and our financial performance for 2014.

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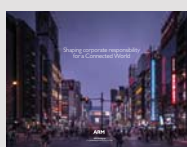
## Where to find more:



### Strategic Report

The Strategic Report contains information about ARM, how we make money and how we run the business. It includes an overview of our main markets, our strategy, business model, key performance indicators and main areas of risk, as well as our progress during 2014. The report also describes our approach to organisation and culture, governance and sustainability, and includes a summary of our financial strategy.

A copy of the Strategic Report can be downloaded from [www.arm.com/reporting2014](http://www.arm.com/reporting2014)



### Corporate Responsibility Report

The Corporate Responsibility Report outlines our approach to investing in sustainability and projects to enable more energy-efficient technology, and how we attract and develop smart and innovative employees.

A copy of the Corporate Responsibility Report can be downloaded from [www.arm.com/reporting2014](http://www.arm.com/reporting2014)



### Investor Relations Website

The Investor Relations Website contains more information on what ARM does and how we connect with some of the world's most innovative companies to shape the future of technology. Here you will find our latest financial results and recent case studies of ARM technology in action.

The Investor Relations Website can be found at [www.arm.com/ir](http://www.arm.com/ir)

## Chairman's introduction

# Our commitment to a strong and effective governance system



**Stuart Chambers**  
Chairman

This report explains the Board's commitment to good corporate governance, corporate responsibility and the highest ethical standards. One of my key responsibilities as Chairman is to promote effective governance which is integral to ensuring that we remain a successful and sustainable company.

## Dear shareholder

I would like to welcome you to ARM's 2014 Governance and Financial Report. I was delighted and privileged to take over the role as Chairman of ARM on 1 March 2014, having joined the Board as Chairman Designate on 27 January 2014. In this introduction, I outline what we have achieved during my first year in terms of gaining insights from shareholders, refreshing the Board, improving its effectiveness and working with the executive team to evolve the Group's short- and longer-term strategic goals.

Having a well-defined governance framework and operating with integrity in all we do is vital to maintain the trust of investors, customers, our employees and other stakeholders. The Board is keenly aware of its responsibility to provide leadership, operate with transparency and promote ethical behaviour and collaboration throughout the Group. We seek to nurture a working environment in which the highest standards of behaviour are established, demonstrated and maintained in all our activities.

The Board actively considers long-term strategy, monitors, challenges and supports the work of the Executive Committee, and is responsible for Board and executive management succession. My role as Chairman is to provide the leadership to ensure high quality decision making in all areas of strategy, performance, responsibility and accountability.

As a Board, we also have ultimate responsibility for the Group's performance, for overseeing the management and for mitigation of the risks that we face to levels that are commensurate with the nature of our business. We seek to do this through a strong and effective governance system and by setting and following the standards that we expect from all our employees. During 2014, the Board endorsed our improved risk assessment and reporting framework and documented our approach to risk appetite.

## Ethics and values

All employees are required to act fairly, honestly and with integrity, and to confirm each year that they have read and understand the Group's Code of Business Conduct and Ethics, a copy of which is published on the corporate website at [www.arm.com](http://www.arm.com). Our Human Rights Policy is incorporated in this Code.

As part of our commitment to the highest standards of business conduct and ethics, we continue to implement communication and training programmes in 2015 to ensure that employees worldwide understand the requirements of all relevant legislation, including the UK Bribery Act 2010 (and its global reach) and the principles and importance of compliance with competition law and anti-trust law. The Compliance Committee reviews a range of activities across the Group, sets appropriate policies and procedures, and takes the lead in ensuring compliance with them. It reports on its activities to the Board through the Audit Committee.

The Group's ethos and culture is also enshrined in ARM's three core beliefs, which were reviewed and refreshed during 2014 and guide how our people behave and make the decisions that deliver our vision and strategic goals, now and in the future. The objective is to encourage teamwork, drive innovation and creativity and to help everyone within the Group to reach their full potential.

## Directors and succession planning

The Board reflects a balance between technology sector, commercial, financial and general business skills, with a highly experienced international team leading the business in both executive and non-executive roles. There are well-defined differences in roles between the executive and non-executive directors and their combined contributions as an experienced, but healthily diverse Board add value to the debate, decision making and development of strategy that are so crucial to the Group's success. Our international capability was extended in 2014 by the appointment of John Liu to the Board on 1 December 2014. He is based in China, an increasingly important market for the Group, and has extensive experience of operating in the burgeoning Asia technology sector. His biography appears on page 7 and details of the process to appoint him are included in the Nomination Committee report on page 23.

We were also very pleased to identify Chris Kennedy as our new Chief Financial Officer. He will join the Board as soon as he has completed his commitments in his current role and a further announcement will be made in due course. He has more than 20 years of international experience in senior financial roles in a broad range of sectors, most recently at easyJet plc where he has served as Chief Financial Officer and a member of the board since 2010. His biography appears on page 7 and details of the process to appoint him are included in the Nomination Committee report on page 23. As announced in May 2014, Tim Score, who has been Chief Financial Officer since 2002, has decided to retire in 2015. Tim has played a major role in ARM's leadership team for the last 13 years which has contributed to the increase in ARM's revenues, profits and returns to shareholders over a sustained period. He has also successfully developed strong relationships with the analyst and investor community worldwide.

The Group's ethos and culture is also enshrined in ARM's three core beliefs, which were reviewed and refreshed during 2014 and guide how our people behave and make the decisions that deliver our vision and strategic goals.

**Stuart Chambers**  
Chairman

Chairman's introduction continued...

Patricia Alsop, who has been Company Secretary since 2003, has decided to retire in May 2015. She will be succeeded by Philip Davis, who will take over the role in addition to his responsibilities as General Counsel.

John Buchanan stepped down as Chairman on 1 March 2014 due to a medical condition and he and Philip Rowley both retired from the Board on 1 May 2014 immediately following the AGM. In addition, Eric Meurice stepped down from the Board on 31 March 2014. We thank all of them and wish them well for the future.

The Nomination Committee is developing candidate briefs for further searches for independent non-executive directors with appropriate skills, experience and diversity to complement our existing Board members and maintain, collectively, an effective Board.

The roles and specific expertise of the current members of the Board are set out in the Biographies section on pages 6 and 7.

## Diversity

The Board currently comprises three executive directors, the Chairman and five independent non-executive directors. At the year-end there were seven men (78%) and two women (22%) which broadly reflects the gender diversity of ARM's workforce as a whole. In terms of location, two directors are located in the USA, one is based in China and the remainder are in the UK.

The Board noted the publication of Lord Davies' Review into Women on Boards in February 2011 and the proposals published by the European Commission in November 2012 (the latter of which includes an objective that 40% of non-executive directors should be women by 2020). We believe that diversity should be considered broadly, as well as focusing on gender. It is important to achieve the correct balance of skills, knowledge and experience on the Board. We will continue to make appointments on merit and also to value diversity in its broadest context.

### Gender split of Board

Men	78%
Women	22%



### Gender split of Senior Managers

Men	89%
Women	11%



### Gender split of employees

Men	84%
Women	16%



### Development of strategy

The Board's work on defining our short- and long-term strategic priorities at this important stage in the Group's development is receiving increased focus. We undertook a detailed strategy review in September 2014 and the next in-depth strategy meeting is scheduled for April 2015. This meeting will focus on progress since the September meeting and future plans to take advantage of the opportunities that have been identified. These opportunities are in areas that include the Internet of Things, efficient networking, ARM-powered servers and security applications. More details are included in the Strategic Report that forms the other part of ARM's Annual Report 2014.

### Corporate governance framework

The Group's corporate governance framework is built around three pillars:

- ▶ Organisation, structure and processes.
- ▶ The internal control framework.
- ▶ Independent assurance.

ARM has its primary listing on the London Stock Exchange and is also listed on the NASDAQ Stock Market in the US.

### Compliance with the UK Corporate Governance Code and the Sarbanes-Oxley Act

Throughout 2014, the Group complied fully with the UK Corporate Governance Code (September 2012) and also with the Sarbanes-Oxley Act 2002 (US). The Board values good corporate governance and this is reflected in our governance principles, policies and practices, and our everyday working processes. This approach is backed by continuous improvement based on measurement against internal and external audits by both Lloyds Register Quality Assurance and the Group's external auditors, benchmarking and a rigorous approach to risk management.

### Remuneration

ARM's remuneration policy, which was approved by shareholders at the 2014 AGM, seeks to align the interests of executive directors, senior management and shareholders, and is structured to enable the Group to attract, motivate and retain the talent required to deliver the business strategy. The approved policy is included for completeness at the end of the Directors' Remuneration Report. The Remuneration Committee, under Larry Hirst's chairmanship, appointed new remuneration advisers in 2014.

The Board is cognisant of the general sensitivity relating to executive director remuneration. We are committed to the principle that there should be no reward for failure. We believe that base salaries should be appropriately competitive and that the higher emphasis on long-term performance-related pay, longer holding periods and increased shareholding requirements are fair and ensure that ARM's remuneration policy does not encourage inappropriate risk taking. This was implemented through the Long Term Incentive Plan approved in 2013 and operated for the first time in 2014.

### Corporate responsibility

Full details of our CR strategy and achievements can be found in the main CR report [www.arm.com/reporting2014](http://www.arm.com/reporting2014) and a summary of highlights from the year are included in the CR section of the Strategic Report on page 43.

Last year for the first time we created the Annual Report as two documents: a Strategic Report containing an update on ARM's progress during the year, an outline of our approach to governance and summary financial results; and a separate Governance and Financial Report giving more detail on governance at ARM and our full accounts. We believe that these two documents together fulfil the best practice guidelines given by the UK Government's Department for Business Innovation and Skills. Reporting in this way was well received by shareholders and other interested parties in 2014. As ever we welcome any further feedback and you can contact us via the investor relations website at [www.arm.com/ir](http://www.arm.com/ir).

During 2014, the Board played an important role in ensuring that the Group's performance targets were achieved in the challenging and competitive economic environment. I hope the following reports from the various Board Committees demonstrate that setting the corporate governance framework continues to be a key focus for the Board. We must always be conscious of the fact that the Board's primary responsibility is to promote the long-term success of the Group for the benefit of customers, employees and shareholders and I am confident that we are well positioned to continue to provide value to all our stakeholders.

Stuart Chambers

Chairman

17 February 2015



## Board of directors

# The experience of the team

ARM's Board has the breadth and depth of experience necessary to guide the Group as it seeks to take full advantage of new opportunities and contend with new challenges. Biographical details of the directors as at the date of this report are as follows:

**Stuart Chambers 58**  
Chairman



#### Committees

Nomination Committee (Chairman) (from 1 March 2014)

#### Current directorships

Rexam plc (Chairman)  
Tesco plc (independent non-executive director)

#### Time on Board

1 year 1 month

#### Expertise

Stuart Chambers joined the Board as Chairman designate on 27 January 2014 and became Chairman on 1 March 2014. He brings a strong track record and a wealth of board and executive experience both in the UK and globally. Up to 2009, he was the Group Chief Executive of Nippon Sheet Glass Group, which acquired Pilkington plc in 2006, where he was Chief Executive. Prior to the glass industry, Stuart held a number of senior positions at Mars, Inc., having previously spent ten years in several European roles at Royal Dutch Shell plc. He has also served in the past as a non-executive director on three other plc boards and chaired three remuneration committees.

**Simon Segars 47**  
Chief Executive Officer



#### Committees

None

#### Current directorships

Global Semiconductor Alliance (director)  
EDA Consortium (director)  
Dolby Laboratories, Inc. (non-executive director and Audit Committee member) (appointed 3 February 2015)

#### Time on Board

10 years 1 month

#### Expertise

Simon Segars joined the Board in January 2005 and was appointed Chief Executive Officer on 1 July 2013. His previous roles include President, leading the IP divisions and representing them on the Board, EVP and General Manager of the Processor and Physical IP Divisions and prior to that, EVP, Engineering, EVP, Worldwide Sales and EVP, Business Development. He joined ARM in early 1991 and worked on many of the early ARM CPU products. He led the development of the ARM7™ and ARM9™ Thumb® families. He holds a number of patents in the field of embedded CPU architectures.

**Tim Score 54**  
Chief Financial Officer



#### Committees

Risk Review Committee  
Compliance Committee

#### Current directorships

The British Land Company PLC (Chairman of the Audit Committee)  
Pearson plc (non-executive director and Audit Committee member)

#### Time on Board

12 years 11 months

#### Expertise

Tim Score joined ARM as Chief Financial Officer and director in March 2002. Before joining ARM, he was Finance Director of Rebus Group Limited. He was previously Group Finance Director of William Baird plc, Group Controller at LucasVarity plc and Group Financial Controller at BTR plc. He will be retiring from the Board in 2015.

**Andy Green 59**  
Independent  
Non-Executive Director



#### Committees

Audit Committee  
Remuneration Committee  
Nomination Committee

#### Current directorships

IG Group Holdings plc (Chairman)  
Dock On AG (Chairman)  
Avanti Communications Group plc (non-executive director)  
Networking People (UK) Limited (Chairman)  
UK Government Connected Digital Economy Catapult (CDEC) (Chairman)  
ABESU (Trustee and director)

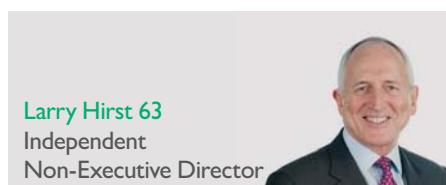
#### Time on Board

4 years

#### Expertise

Andy Green joined the Board in February 2011. He was CEO of Logica plc from 2008 to 2012 and was on the board of BT Group plc from 2001 to 2007. He is Deputy Chair of The Tech Partnership, President UK Space, and is on the board of the CBI. He is a Companion of the Chartered Management Institute. He has attended audit, risk and remuneration committee meetings over many years during his executive roles; he currently chairs two nomination committees and is a member of a remuneration committee.



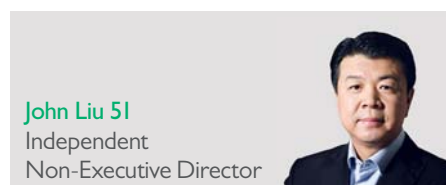


**Committees**  
Remuneration Committee (Chairman from 1 January 2014)

**Current directorships**  
MITIE Group plc (non-executive director)

**Time on Board**  
4 years 1 month

**Expertise**  
Larry Hirst joined the Board in January 2011. He is the former Chairman of IBM Europe, Middle East and Africa. He retired from IBM in 2010 having previously held a wide range of senior positions since joining the company in 1977. He currently chairs the Imperial College Data Science Institute Advisory Board. He is also an Ambassador to Monitise plc and on the International Advisory Board for British Airways. Former roles include being a UK Business Ambassador, a Commissioner for the Commission for Employment and Skills, and Chair of e-skills UK (the UK Sector Skills Council for Business and Information Technology). He is a member of the audit, remuneration and nomination committees at MITIE. He was awarded a CBE in 2006.

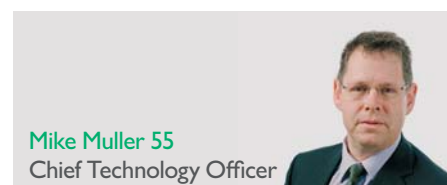


**Committees**  
Nomination Committee  
ARM Asia Advisory Group

**Current activities**  
Qihoo 360 Technology Co. Ltd (Chief Business Officer)  
Digital China Holdings Limited (non-executive director)

**Time on Board**  
2 months

**Expertise**  
John Liu joined the Board on 1 December 2014. He is also a member of the Board of Trustees of Beijing Normal University Education Fund. Former roles include senior executive positions in various companies including as Corporate Vice President and Head of Greater China for Google Inc.; China CEO of SK Telecom Co., Ltd in Korea and Country Director of Greater China of Singapore Telecommunications Limited. He is based in China.

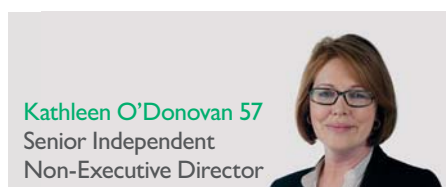


**Committees**  
Risk Review Committee (Chairman)

**Current directorships**  
Intelligent Energy Limited  
Trustonic Limited

**Time on Board**  
13 years 4 months

**Expertise**  
Mike Muller was one of the founders of ARM. Before joining the Group, he was responsible for hardware strategy and the development of portable products at Acorn Computers. He was previously at Orbis Computers. At ARM he was VP, Marketing from 1992 to 1996 and EVP, Business Development until October 2000 when he was appointed Chief Technology Officer. In October 2001, he was appointed to the Board.



**Committees**  
Audit Committee (Chairman)  
Nomination Committee

**Current directorships**  
Invensys Pension Trustee Ltd (Chairman)  
Trinity Mirror plc (non-executive director and Chairman of the Audit Committee)  
D S Smith Plc (non-executive director)

**Time on Board**  
8 years 2 months

**Expertise**  
Kathleen O'Donovan joined the Board in December 2006. Previously she was a non-executive director and Chairman of the Audit Committees of the Court of the Bank of England, Great Portland Estates plc, EMI Group plc and Prudential plc and a non-executive director of O2 plc. Prior to that, she was Chief Financial Officer of BTR plc and Invensys plc, and before that she was a Partner at Ernst & Young.

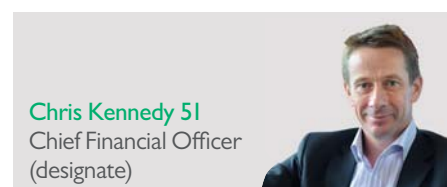


**Committees**  
Audit Committee  
Remuneration Committee

**Current directorships**  
Benhamou Global Ventures (Partner)  
RealNetworks, Inc. (non-executive director, Chair of Compensation Committee and member of Nominating and Corporate Governance Committee)  
Zebra Technologies Corporation (non-executive director and member of Compensation Committee)  
Ronald McDonald House, Stanford (President of the Board of Directors)

**Time on Board**  
4 years 1 month

**Expertise**  
Janice Roberts joined the Board in January 2011. She is a Partner at Benhamou Global Ventures, a Silicon Valley-based venture capital firm, where she invests in early stage technology companies. Prior to that, she was a Managing Director of the Mayfield Fund from 2000 to 2013, where she invested in the mobile, wireless, communications and consumer technology industries. Previously, she held various executive positions at 3Com Corporation, including President Palm Computing, President 3Com Ventures and Senior Vice President, Business Development and Global Marketing. Prior to 3Com she was Managing Director of BICC Data Networks Ltd.



The forthcoming appointment of Chris Kennedy as Chief Financial Officer was announced on 8 January 2015. He will join the Board as soon as he has completed his commitments at easyJet where he has been CFO since 2010. He brings to ARM more than 20 years of international experience in senior financial roles in a broad range of sectors, most recently at easyJet plc where he was a key part of the management team that transformed its performance. Prior to this he worked at EMI plc and was appointed to the board of EMI's holding company, Maltby Ltd in 2008 as CFO and then Chief Investment Officer.

## Corporate governance

# A balanced Board structure

This section and the Directors' Remuneration Report detail how the Group has applied the principles of good governance contained in the UK Corporate Governance Code (September 2012).

## Compliance statement

The Group has complied with the provisions of the UK Corporate Governance Code (September 2012) throughout 2014 and to the date of this document. The Group also achieved full compliance with the requirements of section 404 of the Sarbanes-Oxley Act 2002 (US) for the ninth successive year. The Company's American Depositary Shares are listed on NASDAQ and we are therefore subject to and comply fully with NASDAQ rules, US Securities laws and Securities and Exchange Commission rules to the extent that they apply to foreign private issuers. We explain in the reports below how we applied the provisions and principles of the FCA Listing Rules, the Disclosure and Transparency Rules, and the UK Corporate Governance Code throughout the year.

## Board

The Board is collectively responsible for the overall conduct of the Group's business.

The Board's core activities include:

- ▶ providing leadership for the Group;
- ▶ active engagement in developing the Group's long-term strategy;
- ▶ monitoring executive actions, standards of conduct, performance against business plans and budgets and ensuring that the necessary financial resources and people are in place for the Group to meet its objectives;
- ▶ obtaining assurance that material risks to the Group are identified, that appropriate systems of risk management and control exist to mitigate such risks and defining the Group's appetite for risk;
- ▶ Board and executive management succession;
- ▶ responsibility for the long-term success of the Group having regard to the interests of all stakeholders;
- ▶ responsibility for ensuring the effectiveness of and reporting on our system of corporate governance.

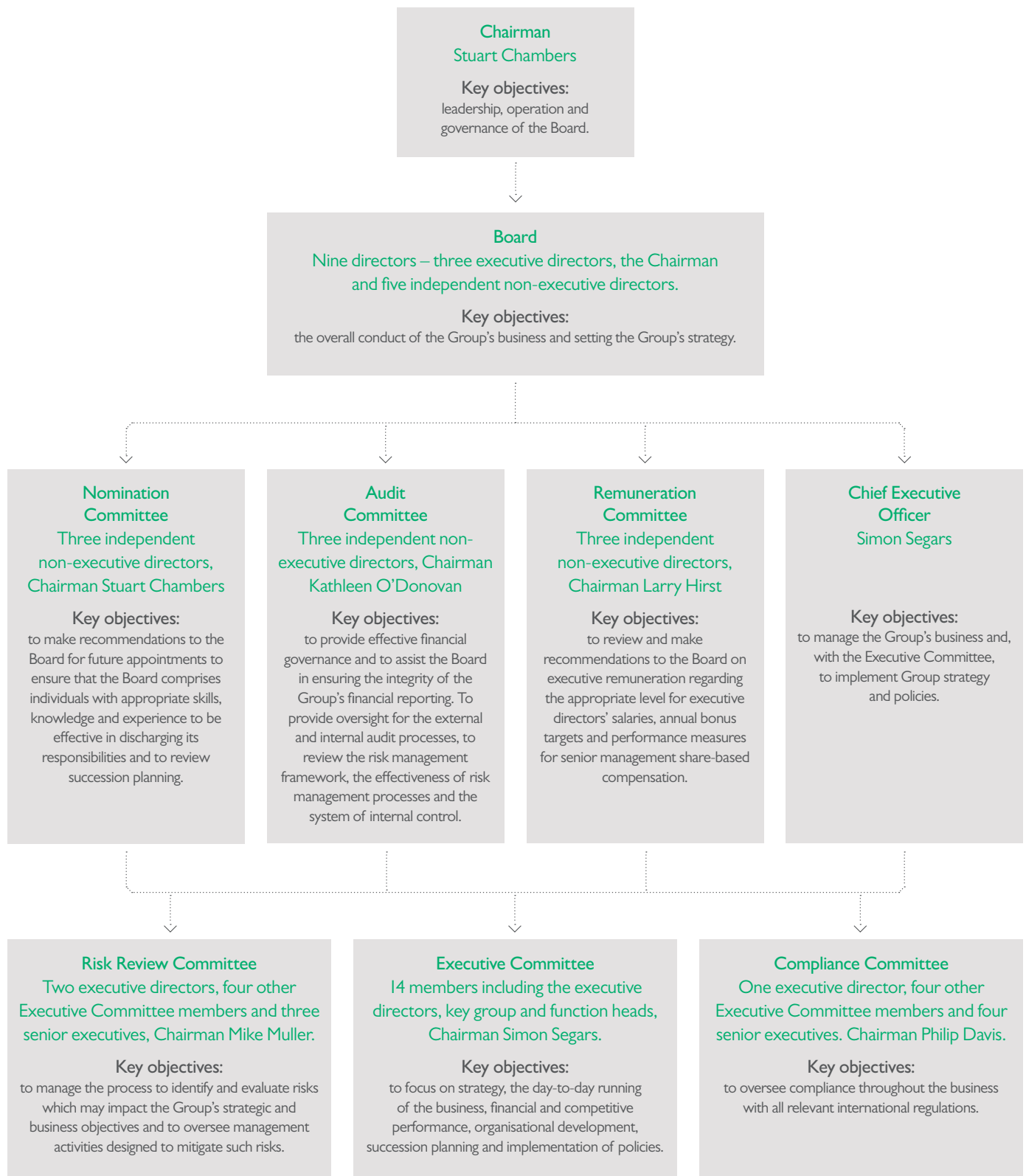
The Board has a formal schedule of matters specifically reserved for its decision, which include:

- ▶ Group strategy and major business decisions;
- ▶ annual budgets and long-term plans;
- ▶ major capital expenditure, acquisitions, disposals and investments;
- ▶ financial reporting, controls and financial structure;
- ▶ shareholder communications;
- ▶ key policies;
- ▶ key advisers.

The schedule was reviewed in February 2015.

## Composition and operation of the Board

At the end of 2014, the Board comprised three executive directors (the Chief Executive Officer, the Chief Financial Officer and the Chief Technology Officer), the Chairman, and five independent non-executive directors. Stuart Chambers became Chairman on 1 March 2014 having been appointed to the Board as Chairman designate on 27 January 2014. Their biographies appear on pages 6 and 7.



Corporate governance continued...

### Conflicts

The Board is fully aware of the other commitments of the Chairman and the executive and non-executive directors. All directors have completed conflicts of interest questionnaires and any planned changes in their directorships outside the Group are subject to prior approval by the Board. No conflicts of interest arose in 2014 or to date in 2015, and no other situations have been identified that might lead to a conflict of interest. In circumstances where a potential conflict arises, the Board (excluding the director concerned) would consider the situation and either authorise the arrangement in accordance with the Companies Act 2006 and the Articles of Association or take other appropriate action.

### Non-executive directors' expertise

Kathleen O'Donovan has been the Senior Independent Director since January 2011. In this capacity she acts as a sounding board for the Chairman and provides a communication channel between the Chairman and the non-executive directors. She is also available to discuss matters with shareholders, if required. In early 2014, she led the Nomination Committee through the process to conclude the appointment of Stuart Chambers as Chairman.

John Liu (who is based in Beijing), Janice Roberts (who is based in Silicon Valley), Larry Hirst, and Andy Green all have a broad understanding of the Group's technology and the practices of major international technology companies. Kathleen O'Donovan is a financial expert with a strong financial background. Directors' biographies are set out on pages 6 and 7 and their beneficial interests in the share capital of the Company are set out in the Directors' Remuneration Report.

### Independence

The Board reviewed the independence of the non-executive directors on appointment and continues to do so on an ongoing basis. Kathleen O'Donovan, who has now served for eight years, remains highly committed and continues to be regarded as independent. The Nomination Committee has commenced the process to recruit a further non-executive director who is a financial expert to take over as Chairman of the Audit Committee. In her capacity as Senior Independent Director and Chairman of the Audit Committee, Kathleen O'Donovan's independence is demonstrated on many occasions each year through her robust approach to questioning management.

The other non-executive directors have shorter service and are regarded as independent in character, judgement and behaviour, based on both participation and performance at Board and Committee meetings. There are no relationships or circumstances that are likely to affect the judgement of any of them. It is the policy of the Board to review the continued appointment of non-executive directors after six years' service. Stuart Chambers was regarded as independent at the time of his appointment as Chairman.

### Board meetings

Board and Committee papers are circulated electronically before each meeting. The business considered at each Board meeting includes the Chief Executive Officer's report on the status of the business, (incorporating industry and strategic developments) and the Chief Financial Officer's report (incorporating financial, market and investor-related information). On a cyclical basis, Board agendas also include detailed assessments of risk, governance, corporate responsibility, public affairs, performance of the business and geographical areas, competitive landscape, R&D and organisation/succession planning.

In the event that a director is unable to attend a meeting or participate by conference call, they receive and read the documents for consideration at that meeting, and have the opportunity to relay their comments and, if necessary, to follow up with the Chairman or the Chief Executive Officer after the meeting.

The non-executive directors are encouraged to suggest matters for Board discussions, and in 2014 they were active in contributing to the agenda for the strategy review and ensuring the amount of time spent on strategic and operational issues was appropriately balanced. The September 2014 strategy meeting enhanced the Board's understanding of the competitive landscape and agreed short- and longer-term strategic objectives. The meeting focused on the Group's current and future activities in China. Three guest speakers with in-depth knowledge of the technology landscape in China gave presentations and participated in question and answer sessions with the Board and local management. An additional strategy meeting has again been scheduled during 2015 and strategy will continue to be covered regularly at Board meetings during the year.

During 2014, the non-executive directors encouraged the executive team to allocate resources to accelerate the development of technology in the Internet of Things arena and to explore new business areas for investment.

Key senior executives attend Board meetings throughout the year, which gives the non-executive directors visibility of executive talent below executive director level, direct information about business developments, and informs them about potential management succession. In particular, each year the general managers of the IP group present a review of past performance against key objectives and KPIs, and their proposals for the coming year.

During 2014, the Chairman held three meetings with the non-executive directors without the executives present, and the non-executive directors met on one occasion without the Chairman being present.

The table on this page shows directors' attendance at scheduled Board meetings, conference calls and ad hoc meetings which they were eligible to attend during the 2014 financial year.

### Board attendance

	Board Meetings attended/ Board meetings eligible for	Conference calls & ad hoc meetings attended/calls & meetings eligible for
<b>Number of scheduled meetings</b>	<b>6</b>	<b>5</b>
Stuart Chambers (appointed 27 January 2014)	6/6	5/5
Simon Segars	6/6	5/5
Andy Green	6/6	4/5
Larry Hirst	6/6	5/5
John Liu (appointed 1 December 2014)	1/1	0/0
Mike Muller	6/6	5/5
Kathleen O'Donovan	6/6	5/5
Janice Roberts	6/6	5/5
Tim Score	6/6	3/5
Sir John Buchanan (retired 1 May 2014)	2/3	0/1
Philip Rowley (retired 1 May 2014)	2/3	1/1
Eric Meurice (retired 31 March 2014)	2/2	0/0

### Chairman

Stuart Chambers joined the Board on 27 January 2014 and took over from Sir John Buchanan as Chairman on 1 March 2014. He is Chairman of Rexam plc and an independent non-executive director of Tesco plc.

The Chairman has primary responsibility for running the Board and the Chief Executive Officer has executive responsibility for the operations and results of the Group, and also for making proposals to the Board in relation to the strategic development of the Group. The Board recognises that the roles of the Chairman and Chief Executive Officer are distinct (as described below) and also the importance of maintaining an excellent working relationship between them.

During 2014, there were regular meetings and calls between the Chairman and the Chief Executive Officer outside Board meetings, including a visit by the Chairman to the Group's office in San Jose. These discussions provided and continue to provide opportunities for the exchange of information, mentoring and regular updates on the business objectives and priorities that the Chairman set for the Chief Executive Officer for 2014. These priorities are described in more detail on pages 12 and 41.

The Chairman participated in various Group events during 2014 to meet managers and employees across the organisation, including the Global Engineering Conference attended by around 600 ARM engineers and a conference held by the IT team. He also met with shareholders during the year, attended the Analyst and Investor Day and the Annual Partner Meeting, which is the Group's major customer event.

## Corporate governance continued...

Main responsibilities of the Chairman include:

- ▶ leadership of the Board and creating the conditions for overall Board and individual director effectiveness, and a constructive relationship with good communication between the executive and non-executive directors;
- ▶ ensuring that the Board as a whole plays a full and constructive part in the development of strategy and overall commercial objectives;
- ▶ chairing the Nomination Committee, which initiates succession planning to retain and build an effective and complementary Board;
- ▶ ensuring that there is effective communication with shareholders and that members of the Board develop an understanding of the views of the major investors in the Group;
- ▶ promoting the highest standards of integrity, probity and corporate governance throughout the Group, particularly at Board level;
- ▶ ensuring that the performance of the Board as a whole, its Committees and individual directors is formally and rigorously evaluated at least once a year.

### Chief Executive Officer

Main responsibilities of the Chief Executive Officer include:

- ▶ proposing and developing the Group's strategy and overall commercial objectives in conjunction with the Executive Committee;
- ▶ day-to-day management of the Group's business with the Executive Committee;
- ▶ chairing the Executive Committee;
- ▶ maintaining a close working relationship with the Chairman;
- ▶ meeting regularly with ARM's leading customers for executive discussions on broad strategic and industry trends;
- ▶ hosting discussions with influential media outlets;
- ▶ fostering good relationships with ARM's larger shareholders and major financial institutions;
- ▶ representing ARM in various industry organisations and professional associations, and activities within the local community and at international level.

### Company Secretary

Patricia Alsop acts as Secretary to the Board and Board Committees and all Board members have individual access to her advice. She ensures that the Board receives all relevant information in a timely manner, organises induction and training programmes for new directors, and facilitates the Board evaluation in years when this is conducted internally. She is also responsible for ensuring that the correct Board and Committee procedures are followed and advises the Board on corporate governance matters. The established procedure under which directors can, where appropriate, obtain independent legal or other professional advice at the Group's expense is also administered through her.

Philip Davis will take over the Company Secretary role on Patricia Alsop's retirement from the Group in May 2015. This is in addition to his responsibilities as General Counsel.

### Annual Report, information and communication with shareholders and other stakeholders

The ultimate responsibility for reviewing and approving the Annual Report and the quarterly earnings releases, and for ensuring that they present a balanced assessment of the Group's position, lies with the Board.

The Board delegates day-to-day responsibility for managing the Group to the Executive Committee and has a number of other Committees, details of which are set out on the following pages.

### Investor relations

The Board makes considerable efforts to establish and maintain good relationships with shareholders and the wider investment community. There is regular dialogue with institutional investors during the year, except during close periods. The main channel of communication continues to be through the Chief Executive Officer, the Chief Financial Officer and the VP of Investor Relations. The Chairman, the Senior Independent Director and the other directors are available to engage in dialogue with major shareholders as appropriate.

The Board encourages communication with private investors and part of the Group's website is dedicated to providing information for all investors, including responses to frequently asked questions, the investment case, product information, press releases, RNS and Securities and Exchange Commission (SEC) announcements, and an interactive online version of the Annual Report.

At present, over 30 sell-side analysts write research reports on the Group and their details appear on the Group's website. Shareholders can also obtain telephone numbers from the website, enabling them to listen to earnings presentations and audio conference calls with analysts. In addition, webcasts or audiocasts of key presentations are made available through the website.

Members of the Board develop an understanding of the views of major shareholders through any direct contact that may be initiated by shareholders, or through analysts' and brokers' briefings. The Board also receives feedback from the Group's brokers and financial PR advisers, who in turn obtain feedback from analysts and brokers following investor roadshows. All shareholders can register to receive the Group's press releases via the internet.



Corporate governance continued...

### Annual General Meeting

The Board actively encourages participation at the AGM, scheduled for 30 April 2015, which is the principal forum for dialogue with private shareholders. The Circular and Notice of AGM are being sent to shareholders concurrently with the distribution of this report, which is well in advance of the required 20 working days before the meeting. A presentation is made outlining recent developments in the business and an open question-and-answer session follows to enable shareholders to ask questions about the business in general. The Chairman, who chairs the Nomination Committee, will be present at the AGM. He will arrange for the respective chairs of the Audit and Remuneration Committees to be available to answer questions and for all directors to attend.

All resolutions proposed at the 2015 AGM will be decided on a poll and the voting results will be published via RNS and the SEC, and will also be available on the Group's website.

In addition to the ordinary business, resolutions will also be proposed at the 2015 AGM to:

- ▶ authorise the directors generally to allot up to £232,891 in nominal amount of ordinary shares;
- ▶ authorise the directors to allot up to a further £232,891 in nominal amount of ordinary shares in connection with a rights issue (as defined in the Notice of AGM);
- ▶ authorise the directors to allot ordinary shares (or sell treasury shares) for cash (i) otherwise than in connection with a "pre-emptive offer" (as defined in the Notice of AGM) up to an aggregate nominal amount of £35,304, or (ii) in connection with a pre-emptive offer up to an aggregate nominal amount of £35,304, or (iii) in connection with a rights issue up to a further nominal amount of £35,304, in each case as if section 561(I) of the Companies Act 2006 did not apply to such allotment (or sale). The period of authorisation will in each case expire at the earlier of the conclusion of the 2016 AGM or on 30 June 2016.

### Board evaluation

The Board undertakes an annual review of its effectiveness. Following the external review undertaken by Independent Audit in 2013, an internally facilitated evaluation was conducted in 2014. The Chairman and the Company Secretary developed a new questionnaire and the focus of the 2014 evaluation was the extent of progress in relation to the four key action areas identified in the 2013 review.

These were:

#### 2013 action areas identified

Ensuring that the Board and Committees have the skills and experience they need going forward

Further improving the culture and dynamics in the Boardroom, with each Board member developing a clear understanding of the Board's role and their individual role

Reviewing the KPIs and Board information and ensuring they are fit for purpose

Exiting the year with greater clarity and a more harmonised Board view on the long-term vision for the business and the consequent strategic priorities

#### Action taken in 2014

We recruited John Liu as an additional non-executive director with extensive expertise in Asia, particularly in China. The membership of all committees was reviewed during 2014 and changes were made to the composition of the Audit, Remuneration and Nomination Committees. The Nomination Committee is developing candidate briefs for further searches in 2015 for independent non-executive directors with appropriate skills, experience and diversity to complement our existing Board members and maintain, collectively, an effective Board.

The consensus from the 2014 Board evaluation is that culture and dynamics in the Boardroom have improved during the year and Board members' roles are better defined and understood. Board members agreed to aim to spend more time together outside formal meetings and the Board will continue to discuss and review this during 2015.

The review concluded that the KPIs and information provided to the Board were broadly fit for purpose. However, some enhancements were proposed, trialled and have now been built into the Board reports. KPIs are described in more detail in the Strategic Report on pages 23 to 30. This action area has been removed from the priorities list for 2015.

ARM's vision, mission and strategy were reviewed and refreshed during 2014. The consensus from the 2014 Board evaluation is that there is a better understanding of the long-term vision for the business and consequent strategic priorities. These were reviewed in detail at the September Strategy meeting which was unanimously agreed to have been well prepared and focused on appropriate areas for future development. These areas include developing technology to address servers and networking infrastructure and the market associated with the Internet of Things. More details are contained in the Strategic Report on page 22 to 23.

The Chairman had a detailed individual discussion with each non-executive director during 2014, in addition to his regular conversations with the CEO.

A process is in place for the Senior Independent Director to meet with each non-executive director individually to provide feedback on the Chairman and on any issues of concern.

The 2014 evaluation covered:

- ▶ Board structure and dynamics;
- ▶ Board meetings;
- ▶ Meeting administration;
- ▶ Board committees – Audit, Remuneration and Nomination;
- ▶ Strategy review;
- ▶ Risk management, corporate governance and corporate responsibility;
- ▶ Key challenges for 2015.

The overall conclusion was that individual Board members are satisfied that the Board works well and operates effectively in an environment where there is constructive challenge from the non-executive directors. They are also satisfied with the contribution made by their colleagues and that Board Committees operate properly and efficiently. The three remaining action areas referred to above will continue to be priorities in 2015, with continued enhancement of the induction and ongoing training process for Board members identified as an additional area of focus.

An internally facilitated Board evaluation will take place during 2015 and the Board intends to continue with a cycle of external evaluations every three years with internal evaluations in between.

Corporate governance continued...

### Induction

A personalised induction programme is arranged for new directors, tailored to their specific requirements, the aim of which is to introduce them to key executives across the business and to enhance their knowledge and understanding of the Group and its activities. In 2014, this included a comprehensive induction programme for Stuart Chambers, who was appointed to the Board on 27 January 2014 and took over the Chairman role on 1 March 2014. This included several days with the Chief Executive Officer in Silicon Valley to see the Group's operations and meet senior executives based there, in addition to a series of individual meetings with Board members, senior executives and external advisers based in the UK. The Chairman has regular meetings and calls with the CEO, CFO, CTO, Company Secretary and EVP People. A similar induction programme is underway for John Liu with a focus on the Group's activities in Asia. He has become a member of the Group's Asia Advisory Group which meets three times each year.

All members of the Board are encouraged to spend time outside Board meetings with members of the Executive Committee and senior management and a number of individual meetings took place during 2014, which will continue during 2015. All Board members are invited to attend the annual ARM Partner Meeting in the UK, which is the Group's key customer event of the year and/or the ARM TechCon in the US. Board members are also invited to attend the annual Analyst and Investor Day. These events offer the opportunity to understand more about the business, products, technology development roadmap, customer base and investor perspective.

### Training

Board members receive guidance on the regulatory regimes and corporate governance framework that the Group operates under. In particular, during 2014 the Board received an update from the Company Secretary on current governance topics including executive remuneration and Board diversity. The Board also participated in a detailed workshop led by the Group's external auditors covering recent and forthcoming developments in corporate governance, audit, reporting, financial accounting and tax. John Liu attended a session with the Group's external lawyers covering the responsibilities of being a director of a UK listed company. The Group has a commitment to training and all directors, executive or non-executive, are encouraged to attend suitable training courses at the Group's expense.

### Terms of reference

The terms of reference of the Audit, Remuneration and Nomination Committees are published on the Group's website at [www.arm.com](http://www.arm.com).

### Executive Committee

The Executive Committee is responsible for developing and implementing the strategy approved by the Board. In particular, the Committee is responsible for ensuring that the Group's budget and forecasts are properly prepared, that targets are met, and for generally managing and developing the business within the overall budget. In addition, the Committee ensures that risks identified through the Business Planning process, particularly corporate-level risks, are managed and mitigated to the greatest extent possible. Variations from the budget and changes in strategy require approval from the main Board of the Group. The Executive Committee, which meets monthly, now comprises:

- ▶ the Chief Executive Officer
- ▶ the Chief Financial Officer
- ▶ the Chief Technology Officer
- ▶ the Chief Operating Officer
- ▶ the Chief Information Officer
- ▶ the EVP and President Product Groups
- ▶ the EVP and President of Commercial and Global Development
- ▶ the Chief Marketing Officer
- ▶ the EVP Strategy
- ▶ the EVP and President ARM Greater China
- ▶ the EVP Technical Operations
- ▶ the EVP People
- ▶ the General Counsel
- ▶ the Company Secretary

Executive Committee meetings are attended by other senior operational personnel, as appropriate. In recognition of the increasing importance of Asia as both a market and an engineering base, the EVP and President of ARM Greater China, who is based in China, became a full member of the Executive Committee on 1 July 2014, having previously been an observer.

Biographies of the members of the Executive Committee appear on the Group's website at [www.arm.com](http://www.arm.com).

### Management structure

The Group has a traditional UK Board structure with a unitary Board comprising the Chairman, executive and non-executive directors. The Audit and Remuneration Committees are made up of independent non-executive directors and they, together with the Nomination Committee, report to the Board. Each of the operations and functions of the Group report to the Executive Committee. The Risk Review Committee reports periodically to the Executive Committee, Audit Committee and the Board. The VP Business Assurance/Head of Internal Audit also has a separate reporting line to the Chairman of the Audit Committee.

## Audit Committee report



**Kathleen O'Donovan**  
Committee Chairman

"The Committee's key objectives are to provide effective financial governance and to assist the Board in ensuring the integrity of the Group's financial reporting. The Committee oversees the external and internal audit processes, and reviews the risk management framework, the effectiveness of the risk management processes, and the system of internal control. The Committee will continue to evolve its activities in the light of guidance from regulators and prevailing economic conditions."

**Committee composition and meeting attendance during 2014**

<i>Name of director</i>	<i>Position</i>	<i>Meetings attended/eligible meetings</i>
Kathleen O'Donovan	Senior Independent Director; Committee Chairman	6/6
Janice Roberts	Independent non-executive director	6/6
Andy Green (appointed 1 May 2014)	Independent non-executive director	3/3
Philip Rowley (retired 1 May 2014)	Independent non-executive director	2/3
Eric Meurice (retired 31 March 2014)	Independent non-executive director	2/2

Kathleen O'Donovan has chaired the Committee since January 2011. She is qualified as the Committee financial expert as defined in the Sarbanes-Oxley Act 2002 (US) and has recent and relevant financial expertise in compliance with the Code provision C3.1. The external auditors, Chief Executive Officer, Chief Financial Officer, the VP Finance, ARM Group, the VP Business Assurance/Head of Internal Audit, the Head of Tax and the Company Secretary attend all meetings in order to ensure that all the information required by the Committee for it to operate effectively is available. The Group Chairman and other Board members also attend Committee meetings from time to time.

The Chairman of the Audit Committee reports to the Board on how the Committee has discharged its responsibilities.

Representatives of the Group's external auditors have a private session with the Committee prior to each meeting, without other management being present.

The Chairman of the Committee also has separate meetings with the VP Business Assurance/Head of Internal Audit, the Chairman of the Risk Review Committee, the external auditors, the Chief Financial Officer, the Company Secretary, the VP Investor Relations and the VP Finance, ARM Group during the year. This is to discuss their ongoing work and any areas of concern, and also to enable certain members of management, such as the Chief Information Officer and the General Counsel, to report on key areas of risk and control.

During 2014, the Chairman of the Committee and the external audit partner again organised a meeting for the UK-based PricewaterhouseCoopers LLP (PwC) audit and tax teams and the ARM finance and tax teams to discuss the audit approach, to understand the planning for the year-end, and to gain insights into the corporate governance environment and the Group's expectations from the internal and external audit processes.

### Principal activities

The principal activities of the Committee during 2014 were the monitoring and reviewing of:

- ▶ the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing any significant financial reporting judgements and the clarity of disclosures;
- ▶ the Group's risk management framework and process and the effectiveness of the Group's internal controls over financial reporting;
- ▶ the status of Sarbanes-Oxley compliance and testing for the Group's reporting under its SEC obligations;
- ▶ the framework for ensuring compliance with legal requirements, accounting standards, the Listing Rules of the Financial Conduct Authority (FCA) and the requirements of the SEC;
- ▶ the assessment of going concern, in advance of its consideration by the Board;
- ▶ the work and results of Business Assurance and Internal Audit in relation to the 2014 Audit Plan and approving the Audit Plan for 2015;
- ▶ the effectiveness and integrity of the 2014 external audit process; including assessing the external auditors' independence and objectivity, the effectiveness of the audit process and fees, the engagement of the external auditors to supply non-audit services and assessing their nature, extent and cost effectiveness; as well as making recommendations to the Board in relation to the appointment, remuneration and resignation or dismissal of the Group's external auditors;
- ▶ the process and procedures whereby employees can raise concerns regarding potential impropriety;
- ▶ the effectiveness of the Audit Committee and our own Terms of Reference.

### The integrity of financial reporting

The Committee reviewed the integrity of the financial statements of the Group and all formal announcements relating to the Group's financial performance.

Each quarter, the Committee reviewed accounting papers prepared by management on areas of financial reporting judgement and matters giving rise to exceptional items. These included:

- ▶ consideration of the accounting treatment of substantial transactions, including any judgemental matters in relation to revenue recognition for major licence contracts with customers, which concluded that revenue had been accounted for appropriately;
- ▶ consideration of the appropriate operating segments and cash generating units of the Group which concluded that the business now has one reportable segment;
- ▶ reviewing the Adjusted Performance Measures used by the Group and referred to as normalised performance measures. Our aim is to ensure they are properly derived, consistently treated and transparently presented, and are appropriately balanced with regard to the required IFRS measures. We review the work by the finance team, the Disclosure Committee and the external auditors;
- ▶ consideration of the judgements surrounding the goodwill impairment review performed in the fourth quarter of 2014. In light of the continuing strong performance of the Group in the year, the Committee was comfortable with management's assessment that, after considering various scenarios incorporating various sensitivity and stress tests, no impairment in carrying value was required;
- ▶ consideration of management's judgement regarding the level of provision required to be carried in relation to ongoing litigation involving either the Group or its licensees, and in particular where the Group may be required to indemnify its licensees, including receiving regular updates from the Group's General Counsel;
- ▶ consideration of the key judgements made in estimating the Group's tax charge and review of any provisions in respect of ongoing tax matters, together with assessment from independent experts;
- ▶ consideration of the Group's tax strategy and key developments that may influence the Group's global tax position;
- ▶ reviewing reports from the Compliance and Disclosure Committees relating to any matters relevant to the financial reporting of the Group.

Audit Committee report continued...

### Fair, balanced and understandable

In line with the requirement in the UK Corporate Governance Code (September 2012) based on both internal and external audit reviews and confirmations from management, the Committee and the Board believe that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

### The effectiveness of risk management, internal controls and Sarbanes-Oxley control framework

We believe that an effective and robust risk management framework and system of internal control is essential to achieving a reliable business performance. On behalf of the Board we review the effectiveness of these processes with regard to the key operational, financial and compliance controls. This is an area of evolution in the light of business circumstances, the marketplace and regulation. We note the continued focus and improvement in this area during the year.

In conjunction with management and the Risk Review Committee, the Committee continued to oversee the Group's risk assessment and reporting framework, with assistance and guidance from external advisers. The format for the Corporate Risk Register, Risk Assurance Matrix and Risk Heatmap has evolved further during 2014, with feedback from the Board being provided through the ongoing strategic risk appetite discussions and the continual assessment of the risk factors in current operations. Group Risk Registers are also now established for each of the operations and functions of the Group and are normally reviewed and updated twice a year. The risk management arrangements are reviewed and discussed at Executive Committee meetings throughout the year.

We have seen continued improvement in the transparency and active ownership of risk management throughout the organisation, driven and supported by a strong tone at the top. We have noted the growing strength of the three lines of defence. We are pleased with the progress achieved, however there remains more still to do and work in these areas will be ongoing in 2015.

More details regarding the risks and their management during the year are included on pages 31 to 37 in the Strategic Report.

The COSO framework of internal control continues to be implemented across the organisation. The processes and procedures for identifying, evaluating and managing the significant business, operational, financial, compliance and other risks have been successfully integrated into day-to-day business operations through our internal control system known as the ARM Management System (AMS) and associated Audit Assurance System.

The AMS is fully documented and compliance is monitored through audits and periodic controls testing during each year. The effectiveness of individual controls is also reviewed with their owners within the operations and functions of the Group to ensure efficacy and relevance. The Business Assurance function reports on the status of the AMS to the Audit Committee at least twice each year. The Compliance and Audit Committees also monitor the satisfactory remediation of any identified control issues with Group-level significance.

The Audit Committee has reviewed and approved the system of internal control, including internal controls over the consolidation process and financial reporting, which have been in place for the year under review and up to the date of approval of the Annual Report and financial statements, and has reported to the Board on any relevant matters.

### Compliance with the Listing Rules of the FCA, the UK Corporate Governance Code and the Sarbanes-Oxley Act (US)

The Audit Committee has reviewed the framework for ensuring compliance with the requirements of the FRC, SEC and UK Corporate Governance. Throughout 2014, the Group complied fully with the UK Corporate Governance Code (September 2012), the Listing Rules of the FCA and also with the Sarbanes-Oxley Act 2002 (US).

### Going concern

In advance of the consideration by the Board on going concern, the Audit Committee reviewed the 2015 budget and longer-term plans and considered any reasonably likely scenarios that may occur. The Committee is satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the parent Company. This view was supported by a sensitivity analysis and stress tests undertaken at the year-end which showed that some extreme assumptions would have to be made before there is a negative impact.



### The work of Business Assurance and Internal Audit

The Committee noted further improvements in the development and effectiveness of the Business Assurance/Internal Audit function in 2014. In particular, the Audit Assurance System (which provides improved document control, risk assessment and reporting) was reviewed and further improvements were completed. We reviewed the resources of the team and the plans for their deployment during the year. We also noted the key relationships between the Assurance team and the Compliance and Risk Review Committees, as well as the working relationship with the external auditors PwC and Lloyd's Register Quality Assurance.

ARM's Internal Audit function develops an annual audit plan to provide assurance that the risk management activities identified to mitigate the risks are designed and operating effectively and that corrective action is being taken where necessary.

As well as the Committee's formal meeting with the VP Business Assurance/Head of Internal Audit, the Chairman of the Committee meets with him informally throughout the year in order to provide the opportunity for open and timely dialogue. Typically there is a discussion about the content and quality of papers intended for the Committee, emerging business risks, the quality of engagement with Internal Audit and any concerns that may have arisen.

### External audit plan and approach

During the year we reviewed PwC's audit strategy, the audit approach, key areas of focus, materiality and the audit plan. PwC explained their risk-based approach, including the interaction with their work on internal control for the purposes of expressing an opinion under section 404 of the Sarbanes-Oxley Act. The results of those procedures were reported in December 2014 and January and February 2015. No material misstatements remained unadjusted in the financial statements.

In addition to the private meetings held with the external auditors and the Committee, the Chairman of the Committee meets with the PwC team on a regular basis to provide the opportunity for an open communication regarding any concerns, as well as to understand their assessment of key judgements as they arise.

### Auditor effectiveness and partner rotation

PwC have been the Group's auditors since it listed on the London Stock Exchange in April 1998. The external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every fifth year-end. The last audit partner rotation took place early in 2012. The Committee considers that the relationship with the auditors is working well and remains satisfied with their objectivity and effectiveness. The Committee is also satisfied with the quality of challenge, scepticism and execution by the auditors and this view is supported by a review of the effectiveness of the external audit process, which was undertaken in December 2014 and reported on in January 2015 involving Board members and senior managers who interact with the auditors. The review looked at the robustness of the audit, and the quality of delivery, people and service, and concluded that the auditors are effective, and that the 2014 audit process had worked well. Some minor areas were noted for continuing improvement and will be monitored in 2015.

Audit Committee report continued...

### Process and procedures whereby employees can raise concerns regarding potential impropriety

The Group operates a whistleblowing policy which sets out procedures for employees to report concerns about any unethical business practices to senior management in strict confidence and without fear of recrimination. The Audit Committee receives details of any such confidential reports from the Compliance Committee. There were three whistleblowing reports in 2014, all of which were reviewed by the Audit Committee. None of these cases were found to involve any financial or other loss to the Group. All were thoroughly investigated (in one case involving a more detailed on-site investigation by members of the Internal Audit team) and appropriate actions were taken. These involved reinforcing Group policies and procedures with employees in the relevant locations through additional training and increased management supervision. All of these matters are regarded by the Audit Committee as being closed.

### Effectiveness of the Audit Committee and our own Terms of Reference.

A review of the effectiveness of the Audit Committee was undertaken in December 2014 and reported on in January 2015. The review involved Audit Committee members, members of senior management who interact with the Audit Committee and the external auditors. The review considered the Committee processes and the knowledge and behaviour of the Committee members and concluded that the Audit Committee is effective. Some minor areas were noted for continuing improvement and will be monitored in 2015.

The Audit Committee reviews its Terms of Reference on an annual basis and is satisfied that they are appropriate. The Terms of Reference have been agreed with the Board.

### Tenure of external auditors

On the basis of the Committee's continued satisfaction with the performance and effectiveness of PwC (as described above), it has not considered it necessary to date to require the firm to tender for the audit work. The Committee is actively monitoring the EU audit directive and ongoing discussions in this area at the Financial Reporting Council, the EU and the Competition Commission. Taking account of the changes to the regulatory regime relating to mandatory audit tendering, the Committee expects to conduct an audit tender before 2018.

### Auditor independence

The auditors are required to, and do, communicate with the Committee at least annually as to whether there are any threats to their independence and objectivity and, if there are, what safeguards have been applied. The Committee has also reviewed the auditors' transparency report, paying particular attention to the sections covering internal controls, independence policies and the results of external regulator reviews. Having reviewed the safeguards in place, and the contents of the transparency report, as well as noting the regular and recent rotation of the audit partner, the Committee is satisfied that the auditors' procedures are sufficient to maintain their independence and objectivity. The Committee has also considered the level of non-audit fees and believes that these are at a level which does not compromise their objectivity or independence in any way.

There are no contractual obligations restricting the Group's choice of external auditor. The Committee also keeps under review the value for money of the audit.

### Policy on auditors providing non-audit services

To avoid the possibility of the auditors' objectivity and independence being compromised, there is an agreed policy in place on the provision of non-audit services by the auditors, which sets out arrangements for approving:

- ▶ services that require general pre-approval by the Committee;
- ▶ services that require specific pre-approval by the Committee before work commences;
- ▶ services that cannot be provided by the auditors.

This non-audit services policy is reviewed annually. The Group's tax advisory work is carried out by the auditors only in cases where they are deemed to be best suited to perform the work in a cost-effective manner, given their familiarity with the Group's business. In other cases, the Group has engaged another independent firm of accountants to perform tax advisory work. The Group does not normally award general consulting work to the auditors, although they did provide advice on the Group's procurement model in 2014. From time to time, the Group will engage the auditors to perform work on matters relating to benchmarking of the internal audit function, human resources, and royalty audits. Total fees for non-audit services were £52,000 for taxation services and £78,000 for royalty, procurement and other services. This represents 15% of the amount spent on audit and audit-related services. A breakdown of fees paid to the auditors can be found in note 5 to the financial statements.

Kathleen O'Donovan  
Committee Chairman  
17 February 2015

## Nomination Committee report

**Stuart Chambers**

Nomination Committee Chairman  
(from 1 March 2014)

“The Committee’s three key tasks in 2014 were concluding the appointment of Stuart Chambers as the new Chairman, appointing Chris Kennedy, who will join the Board as CFO as soon as he has completed his current commitments and appointing John Liu who joined the Board on 1 December 2014 as an additional independent non-executive director. These appointments resulted from extensive externally conducted reviews of candidates.”

As announced on 27 January 2014, it was with much regret that Sir John Buchanan stepped down as Chairman on 1 March 2014, and retired from the Board at the AGM on 1 May 2014 due to a medical condition. The Committee, led for this purpose by the Senior Independent Director, was active in 2013 and early 2014 in finalising arrangements for my appointment as Chairman. I joined the Group on 27 January 2014 as Chairman Designate and took over as Chairman on 1 March 2014.

The Committee has reviewed the skills, experience and attributes of the current non-executive directors, which has informed the qualities to be sought when making future non-executive director appointments. Our goal is to ensure that the Board and its committees comprise individuals with the requisite skills, knowledge and experience to maximise effectiveness in discharging our duties. In particular, this led us to search for a non-executive director with direct knowledge and experience of doing business in Asia, particularly Greater China, which resulted in the appointment of John Liu.

Nomination Committee report continued...

### Nomination Committee composition and meeting attendance during 2014

<i>Name of director</i>	<i>Position</i>	<i>Meetings attended/eligible meetings</i>
Stuart Chambers	Chairman (Chairman from 1 March 2014)	5/5
Kathleen O'Donovan	Senior Independent Director	5/5
Andy Green	Independent non-executive director	5/5
Philip Rowley	Independent non-executive director (retired 1 May 2014)	1/1
Sir John Buchanan	Chairman (retired as Chairman on 1 March 2014 and from the Board on 1 May 2014)	0/0

During the year, the activities of the Committee included engaging external search firms to seek and introduce candidates and interviewing a number of candidates in each case for the following roles:

- ▶ Chairman, which resulted in the Committee recommending the appointment of Stuart Chambers;
- ▶ Independent non-executive director, which resulted in the Committee recommending the appointment of John Liu;
- ▶ Chief Financial Officer, which resulted in the Committee recommending the appointment of Chris Kennedy.

The Chairman led the processes for the appointment of John Liu and Chris Kennedy, in the latter case working closely with the CEO to whom the role reports. Kathleen O'Donovan, in her capacity as the Senior Independent Director, led the process for the appointment of the new Chairman, chairing relevant meetings of the Nomination Committee and a number of conference calls between Committee members.

The external search firms were Zygos in the case of the Chairman recruitment, Egon Zehnder in relation to the non-executive director recruitment and Russell Reynolds for the CFO recruitment. There is no connection between the Group, or any individual director and any of the search firms.

In addition to leading the process for Board appointments and making recommendations to the Board in relation to new appointments, the Committee's general responsibilities include:

- ▶ reviewing succession planning, Board composition and balance;
- ▶ considering the roles and capabilities required for each new appointment, based on an evaluation of the skill, experience, independence and knowledge of the existing directors. During 2014, the Board identified the skills and attributes required for the Board collectively and developed a detailed matrix mapping individual Board members' attributes against these. This provides an informed basis for future searches and recruitment.

Our policy on diversity is set out in more detail in the Directors' report. In summary, we are committed to recruitment which is based on equal opportunities for all, irrespective of age, gender, race, colour, disability, religious affiliation, sexual orientation or marital status. During 2015, the Committee will continue to review the composition of the Board and its committees to ensure that we continue to maintain, collectively, a highly effective Board.

#### Stuart Chambers

Chairman (from 1 March 2014)

17 February 2015

## Corporate Governance report

## Internal control/risk management

The Group fully complies with the UK Corporate Governance Code (September 2012)'s provisions on internal control, having established procedures to implement in full the Turnbull Guidance "Internal Control: Revised Guidance for Directors on the Combined Code". The Group's risks are managed within a systematic process of risk identification and assessment. The detailed risk management process is explained in the Risk management and principal risks section on pages 31 to 37 of the Strategic Report.

The Group notes the provisions of the updated UK Corporate Governance Code published by the Financial Reporting Council in September 2014, and applying to the Group's accounting period beginning 1 January 2015. The Group is complying fully with the provisions of the updated Code and will report on this in its 2015 Annual Report.

The Audit Committee is responsible for ensuring that the risk management framework and process is operating effectively. The Risk Review Committee reviews the Corporate Risk Register (CRR), Group Risk Registers and Risk Heatmap normally on a quarterly basis. The Audit Committee also reviews these documents and the Risk Assurance Matrix, discusses as appropriate with the Chairman of the Risk Review Committee and reviews the minutes of its meetings. The Executive Committee and the Board also review these documents at least twice each year. The Board confirms that the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from this process in a timely manner.

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management, and for reviewing its effectiveness, while implementation of internal control systems is the responsibility of management. The Group has implemented an internal control system designed to help ensure:

- ▶ the effective and efficient operation of the Group by enabling management to respond appropriately to significant risks to achieving the Group's business objectives;

- ▶ the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed;
- ▶ the quality of internal and external reporting;
- ▶ compliance with applicable laws and regulations and with internal policies on the conduct of the Group's business; and
- ▶ the ability to recover in a timely manner from the effects of disasters or major accidents that originate outside the Group's direct control.

Compliance with section 404 of the Sarbanes-Oxley Act 2002 (US) has been successfully achieved for each financial year since it became effective for foreign private issuers in 2006. This is reported on in more detail in the Annual Report on Form 20-F that is filed with the SEC. The processes and procedures for identifying, evaluating and managing the significant business, operational, financial, compliance and other risks facing the Group have been successfully integrated into day-to-day business operations through our internal control system. This is known as the ARM Management System (AMS) and associated Audit Assurance System and is proven to provide a sustainable solution for ongoing compliance.

The AMS, which covers financial, compliance and operational controls, is fully documented and compliance is monitored through audits and periodic controls testing during each year. The effectiveness of individual controls is also reviewed with their owners within the operations and functions of the Group to ensure efficacy and relevance. The Business Assurance function reports on the status of the AMS to the Audit Committee at least twice each year. The Compliance and Audit Committees also monitor the satisfactory remediation of any identified control issues with Group-level significance.

The Audit Committee has reviewed and approved the system of internal control, including internal controls over the consolidation process and financial reporting, which have been in place for the year under review and up to the date of approval of the Annual Report and financial statements. These controls consist of extensive reviews by qualified and experienced individuals, underpinned by a system of checklists which ensures that all elements of the financial

statements and appropriate disclosures are considered and accurately stated. The Audit Committee reports to the Board on matters of financial reporting and internal controls.

The CRR, risk appetite and a draft set of guiding principles were reviewed by the Board in January 2014 and provided a good starting point to review plans for the development and implementation of the Group's strategy. Risk appetite will continue to be discussed and refined during 2015. During 2014, the Board confirmed that the level of residual risk is regarded as acceptable and within normal parameters for a company operating in ARM's sphere of business.

Control systems are designed to manage rather than eliminate the risks inherent in a fast-moving, high-technology business and can, therefore, provide only reasonable and not absolute assurance against material misstatement or loss.

## Remuneration Committee

A description of the composition, responsibilities and operation of the Remuneration Committee is set out in the Directors' Remuneration Report on page 34.

The Group has a number of other committees and bodies that contribute to the overall control environment. These include:

## Risk Review Committee

Membership of the Risk Review Committee was expanded during 2014 and now comprises the Chief Technology Officer, the Chief Financial Officer, the Chief Operating Officer, the EVP and President Product Groups, the Chief Information Officer, the VP Finance, ARM Group, the VP Business Assurance/Head of Internal Audit, the VP Planning and the Company Secretary. The Group's process for the identification, ownership, mitigation and reporting of risk was enhanced further during 2014 with refinements to the CRR and the introduction of Group Risk Registers. The Committee established a CRR some years ago, which summarises the key risks faced by the Group. The CRR includes a description of the overall risk, the risk factors, the risk owner and the risk management activities including operational and oversight activities as defined in the "three lines of defence" model. Residual risks are assessed in terms of likelihood and impact and mapped onto a

Corporate Governance report continued...

Risk Heatmap. Further risk mitigation plans are defined to reduce the residual risk if judged necessary. The sources of assurance are defined on a separate Risk Assurance Matrix. Each risk on the CRR is owned by a member of the senior management team. Risk mitigation plans are managed within the relevant objectives of the Group's operations and functions.

The Risk Review Committee typically meets on a quarterly basis to review the CRR and identify other risks that need to be incorporated. Each risk owner is required to review and demonstrate that residual risks are being appropriately mitigated via the risk mitigation plans, which are normally updated bi-annually. Changes that could impact the CRR are reviewed by the Committee.

The Risk Review Committee reports to the Audit Committee throughout the year. Each quarter, the Board and the Audit Committee receive copies of the minutes of Risk Review Committee meetings, the CRR and the Risk Heatmap. These provide greater visibility of the range of risks, the ways in which such risks are mitigated, and an assessment of the level and acceptability of residual risk. The Committee reports formally on the CRR to the Executive Committee twice a year, where its findings are considered and challenged.

More information on industry trends and associated risks and opportunities are included in the Risk management and principal risks section of the Strategic Report on pages 31 to 37 and in the Annual Report on Form 20-F for the year ended 31 December 2014 which is available on the Group's website at [www.arm.com](http://www.arm.com).

### Compliance Committee

The Compliance Committee consists of the General Counsel (Chairman), the Chief Financial Officer, the Chief Operating Officer, the Company Secretary, the VP Business Assurance/Head of Internal Audit, the Chief Information Officer, the General Manager Partner Enablement, the Director Global HR Services and the Business Assurance Audit Manager. It oversees compliance throughout the business with all relevant international regulations, export controls, trading requirements and standards, including direct oversight of financial, employment, health and safety, environmental, business

continuity and security processes and policies. The Compliance Committee reports to the Executive Committee and its minutes are reviewed by the Audit Committee and the Board. The Chairman of the Compliance Committee is available to discuss matters as appropriate with the Audit Committee and Board.

### Disclosure Committee

The Disclosure Committee comprises the Chief Executive Officer (Chairman), the Chief Financial Officer, the VP Finance, ARM Group, the General Counsel, the VP Investor Relations and the Company Secretary. It is responsible for ensuring that disclosures made by the Group to its shareholders and the investment community are accurate, complete and fairly present the Group's financial condition in all material respects. The Disclosure Committee reports to the Audit Committee and Board.

### Management structure

In addition, there are various committees, governance review teams and operational review meetings that span the Group. These include the regular Executive Committee meetings chaired by the Chief Executive Officer and the weekly Business Review Meeting chaired by the Chief Operating Officer, the purpose of which is to monitor and control all main business activities, revenue forecasts and other matters requiring approval. In addition, as part of the overall structure, management reviews (with representatives from the operations and functions) revenues, orders booked, costs, product and project delivery dates, and levels of defects found in products in development. Relevant issues are escalated to the Executive Committee which, in turn, raises relevant issues to the Board of the Group.

The four governance review teams report to the Compliance Committee, which in turn reports to the Executive Committee.

### Internal audit function

The Group has an internal audit function that meets the criteria set out in the key practice standards prescribed by the Institute of Internal Auditors. This internal audit function develops an annual audit plan to provide assurance that the risk management activities identified to mitigate risk are designed and operating effectively and that corrective action is being taken where necessary. The internal audit function undertook a range of financial and operational audits in 2014 in line with the plan agreed with the Audit Committee. Additional internal audit resource is provided by co-sourcing arrangements with independent third-parties.

In December 2014, the Group successfully achieved certificate renewal for:

- ▶ ISO 27001, the international standard for Information Security Management; and
- ▶ ISO 22301, the international standard for Business Continuity Management.

The Group also has certification for ISO 9001, the international standard for Business/Quality Management, which was maintained throughout the year.

The Group's management system (AMS) documents processes and responsibilities across all functions and operations. As an autonomous part of this system, the internal audit function carries out a programme of audits to assess its design and operating effectiveness, resulting in continuous maintenance and improvement of the system, adapting to changes in business operations as necessary.

To demonstrate compliance with the Sarbanes-Oxley Act, the internal audit function also maintains the documented controls over financial reporting and confirms the operation of them either by direct testing or through a monitored self-assessment programme. The management system is audited externally by Lloyd's Register Quality Assurance for compliance with the requirements of ISO 9001:2008, ISO 27001:2013, ISO 22301:2012 and as part of their business assurance approach, they support our Sarbanes-Oxley compliance activity.



Any significant control failings identified through the internal audit function or the external auditors are brought to the attention of the Compliance Committee and undergo a detailed process of evaluation of both the failing and the steps taken to remedy it. There is then a process for communication of any significant control failures to the Audit Committee. There were no material control failures during 2014 or up to 16 February 2015, being the latest practicable date before the printing of this report.

### Whistleblowing policy

The Group operates a whistleblowing policy which sets out procedures for employees to report concerns about any unethical business practices to senior management in strict confidence and without fear of recrimination. The policy was reviewed and updated during 2014 with the aim of increasing employees' understanding of the circumstances in which they should raise concerns and the process to do this. If they prefer, they can report matters anonymously through an independent third-party telephone line. The third-party telephone line is tested regularly to ensure that employees can use it if they have occasion to. The Audit Committee receives details of any such confidential reports from the Compliance Committee. See page 22 for more information.

We have also translated the whistleblowing policy into Chinese (simplified and traditional), Japanese and Korean to ensure correct understanding in those countries. In 2015 to date there have been no whistleblowing reports.

### Anti-bribery and anti-corruption measures

The Group's Code of Business Conduct and Ethics, which is available on the Group's website, and the Company Rules incorporate appropriate provisions to meet our obligations under the UK Bribery Act 2010. A training and communication programme is in place to ensure that employees understand the requirements of the Act and the reporting procedures. This is targeted at employees in roles or working in countries that are regarded as higher risk.

Arrangements with contractors and suppliers have been and will continue to be reviewed and updated to reflect the requirements of the Act. The Compliance Committee oversees the reporting procedures and monitors and escalates reports in appropriate circumstances. There were no reports of concern during 2014 or up to 16 February 2015, being the latest practicable date before the printing of this report.

### Human rights and equal opportunities

The Group has signed the Universal Declaration of Human Rights and has integrated relevant human rights principles into its policies for employees and contractors. There is growing interest worldwide in the issue of the impact of business on human rights.

As a result of our work with Shift, a specialist NGO working on business and human rights in 2013, we are confident that our risk in this area is low. We have adopted a specific Human Rights Policy within our Code of Business Conduct and Ethics, in addition to our existing policies on conflict minerals, business ethics, discrimination and export controls. Our Human Rights Policy underlines our commitment to trying to avoid any adverse impact on human rights in the way we conduct our operations, and designates contact points within the senior executive team for any employee to seek advice on any issue that might have human rights implications.

The Group strives for equal opportunities for all its employees and does not tolerate any harassment of, or discrimination against, its staff. A more detailed description of our policies on diversity and equal opportunities is included in the Directors' report on page 29. The Group 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.

### ARM University Programme

The ARM University Programme aims to increase the Group's and our Partners' reach in academia worldwide with the objective of training the next generation of engineers on ARM-based technologies. By building multiple channels with diverse partners, the programme once again doubled its adopted course and laboratory base worldwide in 2014. This was achieved through closer collaboration with the wider ARM ecosystem, new partnership models and novel streamlined methods to produce new education kits across a broad range of hardware platforms and academic topics.

The past year also saw the development of an online strategy with new content and delivery channels designed to meet the expectations of today's student population. As we develop this further in 2015 and beyond, the programme will partner with industry, governments and academia to create new forms of learning content and delivery platforms. We believe this to be the best way to meet the often conflicting demands of high-quality, low-cost and widely accessible tuition. Embracing state-of-the-art technologies such as e-Learning will be a key ingredient in this new extension to the programme.

The Group and our Partners are already seeing the benefits of the ARM University Programme's activities as it educates tens of thousands of students worldwide on ARM technologies, preparing them for the numerous employment opportunities available in the ARM ecosystem.

### Environmental, social, corporate governance and ethical policies

While the Group is accountable to its shareholders, it also endeavours to take into account the interests of all its stakeholders, including employees, customers and suppliers and the local communities and environments in which it operates. The Chief Executive Officer and the Chief Financial Officer take responsibility for these matters, which are considered at Board level.

Full details of our CR strategy and achievements can be found in the main CR report on our website ([www.arm/reporting2014](http://www.arm/reporting2014)) and a summary of highlights from the year are included in the Sustainability section of the Strategic Report on page 43.



Corporate Governance report continued...

The Group regularly monitors employees' awareness of Group policies and procedures, including its conduct and ethical policies. Employees and temporary contractors reconfirm their understanding of key policies each year to help reinforce awareness.

The Group operates from a global portfolio of offices located in 18 countries. The portfolio is made up entirely of offices since the Group has no manufacturing activities. As such there are no hazardous substances nor complex waste streams to be managed as part of our business operations. The Group's principal activity involves the use of IT-based engineering tools to create intellectual property. With the exception of development systems products, the majority of "products" sold by the Group comprise microprocessor core and physical IP designs that are delivered electronically to customers.

The Group's ongoing environmental impact analysis informs management about key environmental factors and how it can reduce the impacts associated with them. In 2014, the Group's advanced compute resource requirement continued with the completion of a second major data centre hub in Austin, Texas. Alongside our Cambridge data centre, this installation has received CEEDA (Certified Energy Efficient Datacentre Award) accreditation for energy-efficiency and recently, it was awarded the accolade of Green Data Centre of the year at the North American DCD Awards ceremony.

In 2014, ARM continued to strive for environmental accreditation in its new build projects. Two significant projects, scheduled for completion in 2015 and 2016, have had environmental performance incorporated into the design briefs and will achieve either Leadership in Energy and Environmental Design (LEED) Accreditation or the equivalent Building Research Establishment Environmental Assessment Methodology (BREEAM). These building standards ensure high environmental performance of the Group's built environment throughout its entire lifecycle.

The Group has continued to partner with companies working in the low-impact building technology field. We have installations in place with Intellisense, Enlight and Alert Me in our Cambridge offices, improving our environmental performance using energy-efficient ARM technology. Areas such as lighting control and environmental monitoring of plant for improved building efficiency are being developed with these partners and will be extended to other key sites and new build projects. The Group continued to enhance its environmental data collection and reporting ability during 2014 to support the work of our Energy Use and Climate Change Committee (EUCCC). This is an Executive-sponsored steering group that directs activity relating to environmental stewardship and the management of our environmental aspects.

The Group's environmental policy is published on our website within the CR report.

In line with the Companies Act 2006, the Articles of Association enable the Group to send information to shareholders electronically and make documents available through the website rather than in hard copy, which provides both environmental and cost benefits. Shareholders can opt to continue receiving a printed copy of the Annual Report, subject to availability.

### Health and safety

The Group operates in an industry and in environments which are considered low risk from a health and safety perspective. However, the safety and welfare of employees, contractors and visitors is a priority in all Group workplaces worldwide. The Group continues to improve its management systems in this area with an audit programme that includes external auditing of processes and offices.

More detail about the Group's approach to environmental matters and health and safety is included in the CR report.

### Articles of Association

ARM's Articles of Association may be amended only by a special resolution at a general meeting of shareholders.

### Directors' authority

The directors are responsible for the management of the business of ARM and may exercise all powers of ARM subject to applicable legislation and regulation and the Articles of Association.

At the 2014 AGM, the directors were given authority to buy back a maximum number of 140,891,000 ordinary shares at a minimum price of 0.05 pence each. The maximum price was an amount equal to 105% of the average of the closing mid-market prices of ARM's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary shares are contracted to be purchased. This authority will expire at the earlier of the conclusion of the 2015 AGM or 30 June 2015. During 2014, a total of 7,852,543 shares were re-purchased and are held in treasury. Share buy backs are expected to continue to be made at a level which will broadly offset dilution resulting from employee share grants.

A resolution will be proposed as a special resolution at the 2015 AGM to give ARM authority to acquire up to 141,146,000 ordinary shares following expiry of the current authority. The directors will use this authority only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall position of ARM. In particular, this authority will be exercised only if the directors believe that it is in the best interests of shareholders generally and will increase earnings per share.

### Business model

A detailed description of ARM's business model is set out on pages 20 to 21 of the Strategic Report.

By order of the Board

Patricia Alsop

Company Secretary

## Directors' report

# Additional statutory information

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2014. The following additional disclosures are made in compliance with the Companies Act 2006, the Disclosure and Transparency Rules and the UK Corporate Governance Code (September 2012).

## Description of operations, principal activities and review of business

The principal operations and activities of the Group and its subsidiaries are the licensing, marketing, research and development of RISC-based microprocessors, graphics and video processors, display technology, physical IP and associated systems IP, software and tools. The nature of the global semiconductor industry is such that most of the Group's business originates overseas and, to serve its customers better, the Group has sales offices around the world. These include eight offices in the US, three in PR China and three in the rest of Asia. The Group has design offices worldwide with the larger engineering operations based in Cambridge, UK, San Jose and Austin, USA, and Bangalore, India. A full list of the Group's offices is included on page 129.

More information about the business, its operations and key performance indicators is set out in the Strategic Report in the Our marketplace section on pages 16 to 19, the Our business model section on pages 20 to 21, the Strategy and key performance indicators section on pages 22 to 30, the Financial Strategy section, on pages 52 to 57, the Risk management section on pages 31 to 37, and the Corporate Responsibility summary on pages 43 to 45. The Group's statement on corporate governance can be found in the Corporate Governance report on pages 8 to 28 of this Governance and Financial Report. The Risk management section and the Corporate Governance report form part of this section and are incorporated into it by cross-reference.

## Future developments

The Group's stated objective is to establish a global standard for its RISC architecture, physical IP and other products in the embedded microprocessor and semiconductor markets. The directors believe that, in order to achieve this goal, it is important to expand the number and range of potential customers for its technology.

The Group intends to enter into licence agreements with new customers and to increase the range of new technology supplied to existing customers. Relationships will continue to be established with third-party tools and software vendors to ensure that their products will operate with the Group's products. As a result of its position in the semiconductor industry, the Group is presented with many opportunities to acquire complementary technology or resources and it intends to continue to make appropriate investments and acquisitions from time to time.

## Going concern

After dividend payments of £86.1 million the highly cash generative nature of the business enabled the Group to increase its cash, cash equivalents and deposits to £861.7 million (net of accrued interest of £4.6 million) at the end of 2014. This was an increase from £706.3 million (net of accrued interest of £7.2 million) at the start of the year. After reviewing the 2015 budget and longer-term plans and considering any reasonably likely scenarios that may occur, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the parent Company. This view was supported by a sensitivity analysis and stress tests undertaken at the year-end which showed that some extreme assumptions would have to be made before there is a negative impact.

## Dividends

The directors recommend payment of a final dividend in respect of the year to 31 December 2014 of 4.5 pence per share which, subject to approval at the AGM on 30 April 2015, will be paid on 15 May 2015 to shareholders on the register on 24 April 2015. This final dividend, combined with the interim dividend of 2.52 pence per share paid in October 2014, makes a total of 7.02 pence per share for the year, an increase of 23% on the total dividend of 5.7 pence per share for 2013. The total cost of dividends paid or to be paid in respect of the year to 31 December 2014 is approximately £99 million.

## Share buyback programme

The Group bought back 7,852,543 shares with a nominal value of 0.05 pence per share during 2014 at an average cost of 852.2 pence per share. This represents 0.6% of the issued share capital of the Group. These shares are held in treasury and will be used to satisfy equity awards to employees. The purpose of the share buyback programme is to offset dilution and maintain the issued share capital at a broadly constant level. No shares have been re-purchased to date in 2015. The rolling authority to buy back shares given by the shareholders at the AGM in May 2014 remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2015 AGM.

Directors' report continued...

## Research and development (R&D)

Development of IP is at the heart of the Group's activities and 72% of the Group's workforce is employed in engineering activities. Within this, R&D is of major importance and, as part of its research activities, the Group collaborates closely with universities worldwide and plans to continue its successful engagement with Michigan University.

Key areas of product development for 2015 include the development of further energy-efficient, high-performance processors, such as ARM cores based on symmetric multicore and superscalar technology.

The Group is investing in future physical IP development including low-power, low-leakage technologies for a range of chip manufacturing processes, to ensure leadership in this market. In addition, the Group will continue to develop and deliver tools, graphics processors and system IP to enable its customers to design and programme SoCs.

The Group incurred R&D expenses of £224.2 million in 2014, representing 28% of revenues, compared with £202.9 million in 2013, representing 28% of revenues. R&D expenses have been charged in full to the income statement since the requirements for capitalisation were not met. The requirements for capitalisation are considered in more detail in note 1 to the financial statements.

## Donations

The directors decided that an increase in charitable giving was appropriate during 2014 and the Group made donations as follows:

	2014 £000	2013 £000
Promotion of education	916	362
Other	153	106
Medical research	69	62
Local charities	93	68
Environmental	102	90
<b>Total</b>	<b>1,333</b>	<b>688</b>

ARM's investment of £2.5 million in an interest-free charitable bond in Future Business, made in 2010, remains in place. Future Business is a Cambridge-based social enterprise, which provides business advice, coaching and affordable workspace to entrepreneurs, start-up businesses, charities and voluntary organisations.

ARM employees are encouraged to offer their time and expertise to help charities and other groups in need. The Group operates a Matching Gift Donation programme for individual employees' fundraising efforts. The Group does not make any political donations.

More details of the Group's charitable work and fundraising activities can be found in the Corporate Responsibility report available on the Group's website at [www.arm.com/reporting2014](http://www.arm.com/reporting2014).

## Global Green House Gas Emissions

Our report covers emissions within operations that fall under the Group's financial control. As such data used represents our global operations with regional conversion factors applied as required.

Our emission factors are from Defra/DECC GHG Conversion Factors for Company Reporting. Our environmental impact assessment of ARM's operations includes energy use and air travel as our material CO<sub>2</sub>e contributors. We have excluded non-material emissions related to refrigerant losses in air conditioning systems, motor cars and waste streams.

The increase in our carbon emissions intensity in 2014 is due to growth in employee numbers from 2,833 at the start of the year to 3,294 people at the year-end, with a corresponding increase in the size of our global estate.

Further detail on our emissions and the Group's management of those emissions can be found in our Carbon Disclosure Project Submissions.

Reported Emissions	2014	2013
<b>Scope 1 and 2 Emissions</b>		
Combustion of Fuel, Operation of Facilities and Electricity and Cooling Purchased (tonnes CO <sub>2</sub> e)	13,741	11,067
CO <sub>2</sub> e Intensity (tonnes CO <sub>2</sub> e per employee/contractor)	3.82	3.37
<b>Scope 3 Emissions</b>		
Business Travel (tonnes CO <sub>2</sub> e)	11,642	10,186

### Directors in the year

The following served as directors of the Company during the year ended 31 December 2014:

- ▶ Stuart Chambers (Chairman from 1 March 2014 – appointed 27 January 2014)
- ▶ Simon Segars (Chief Executive Officer)
- ▶ Tim Score (Chief Financial Officer)
- ▶ Mike Muller (Chief Technology Officer)
- ▶ Andy Green (independent non-executive director)
- ▶ Larry Hirst CBE (independent non-executive director)
- ▶ John Liu (independent non-executive director – appointed 1 December 2014)
- ▶ Kathleen O'Donovan (Senior Independent Director and financial expert)
- ▶ Janice Roberts (independent non-executive director)
- ▶ Sir John Buchanan (former Chairman – retired 1 May 2014)
- ▶ Philip Rowley (former independent non-executive director and financial expert – retired 1 May 2014)
- ▶ Eric Meurice (independent non-executive director – retired 31 March 2014)

### Election and re-election of directors

John Liu joined the Board on 1 December 2014 as an independent non-executive director and will be standing for election at the 2015 AGM. All of the other directors will be standing for re-election at the 2015 AGM. In line with the provisions of the UK Corporate Governance Code (September 2012), all directors will present themselves for re-election annually (if eligible) unless the directors have agreed otherwise.

See pages 6 to 7 for the biographies of the directors at the date of this report.

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 Directors' Remuneration Report.

The directors have the benefit of directors' and officers' liability insurance.

### Appointment of directors

ARM shareholders may by ordinary resolution appoint any person to be a director. ARM must have not less than two and no more than 16 directors holding office at all times. ARM may by ordinary resolution from time to time vary the minimum and/or maximum number of directors.

The directors may appoint a director to fill a casual vacancy or as an additional director to hold office until the next AGM, who shall then be eligible for election.

### Share capital

At 31 December 2014, ARM's share capital comprised a single class of ordinary shares of 0.05 pence each and there were 1,412,160,836 ordinary shares in issue, of which 7,852,543 were held in treasury (2013: no shares held in treasury). The rights attached to treasury shares are restricted in accordance with the Companies Act. The rights attached to ordinary shares are as follows:

1. On a show of hands at a general meeting, every shareholder present in person (or, in the case of a corporation, present at the meeting by way of a representative) and entitled to vote shall have one vote and every proxy present who has been duly appointed by a shareholder entitled to vote on the resolution shall have one vote.
2. On a poll, every shareholder present in person (or in the case of a corporation, present at the meeting by way of a representative) or by proxy and entitled to vote shall have one vote for every ordinary share held.
3. Shareholders are entitled to a dividend where declared or paid out of profits available for such purposes.
4. Shareholders are entitled to participate in a return of capital on a winding-up.

The notice of the AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on ARM's website after the meeting.

Directors' report continued...

There are no restrictions on the transfer of ordinary shares in ARM other than:

- ▶ restrictions that may from time to time be imposed by laws and regulations (for example, those relating to market abuse and insider dealing);
- ▶ restrictions that may be imposed pursuant to the Listing Rules of the Financial Services Authority under which certain employees of ARM require the approval of the Company to deal in shares;
- ▶ restrictions on the transfer of shares that may be imposed under article 61.2 of ARM's Articles of Association or under Part 22 of the Companies Act 2006, in either case following a failure to supply information required to be disclosed following service of a request under section 793 of the Companies Act 2006;
- ▶ restrictions on transfer of shares held under certain of the Company's employee share plans while they remain subject to the plan.

### Substantial shareholdings

The directors are aware of the following substantial interests in the issued share capital of the Company as at 16 February 2015:

	<i>Percentage of issued ordinary share capital</i>
BlackRock, Inc	5.07
Baillie Gifford & Co	5.01
Thornburg Investment Management	5.01
Fidelity Management and Research Corporation	4.92
Janus Capital Management LLC	4.00

Save for the above, the Company has not been notified, as at 16 February 2015, of any material interest of 3% or more or any non-material interest exceeding 10% of the issued share capital of the Company.

### Qualifying indemnity provision

Article 139 of the Company's Articles of Association provides for the indemnification of directors of the Company against liability incurred by them in certain situations, and is a "qualifying indemnity provision" within the meaning of section 236 of the Companies Act 2006.

The qualifying indemnity was in force during the financial year and up to the date of signing the Annual Report.

### Change of control

All of ARM's equity-based plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

There are no significant agreements to which ARM is a party that take effect, alter or terminate upon a change of control.

### Diversity and equal opportunities

The Group has a strong demand for highly qualified staff. It is proud of its diverse workforce which is made up of people of all ages from cultures and countries around the world. The Group is committed to promoting and ensuring equal treatment. No worker (potential or existing), client or customer will be discriminated against on grounds of their gender, sexual orientation, marital or civil partner status, gender reassignment, race, colour, nationality, ethnic or national origin, religion or belief, disability or age.

Disability is not seen to be an inhibitor to employment or career development. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. In the event of any staff becoming disabled while with the Group, their needs and abilities

would be assessed and the Group would, where possible, seek to offer alternative employment to them if they were no longer able to continue in their current role.

### Employee involvement

To help reach the best decision, and one that all employees can support, it is important that we include the views of those outside of the management team in the decision-making process. To this end, internal conferences and communications meetings involving employees from all parts of the Group in discussions on future strategy and developments are held regularly. Furthermore, employee share ownership is encouraged and all employees are able to participate in one of the Group's share ownership schemes. It does not presently operate any collective agreements with any trade unions.

Information about the Group's employees and policies are contained in the Our people section of the Strategic Report. Information about environmental matters, social and community policies and their effectiveness is contained in the Corporate Responsibility section of the Strategic Report and in the full Corporate Responsibility report available on our website.

### Financial instruments

The Group's financial risk management and policies and exposure to risks in relation to financial instruments are detailed in note 1c.

### Essential contracts

There are no parties with whom the Group has contractual or other arrangements that are essential to the business of the Group.

No company accounted for more than 10% of Group revenues in 2014 (2013: one company accounted for 12%).



### Annual General Meeting (AGM)

The AGM will be held at 110 Fulbourn Road, Cambridge CB1 9NJ, UK, on 30 April 2015 at 2.00pm. A presentation will be made at this meeting outlining recent developments in the business. All voting at the meeting will be conducted on a poll where every shareholder present in person or by proxy will have one vote for each share of which they are the owner. The Group will convey the results of the poll on the website after the AGM. Shareholders are invited to submit written questions in advance of the meeting. Questions should be sent to The Company Secretary, ARM Holdings plc, 110 Fulbourn Road, Cambridge CB1 9NJ, UK.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Group will be proposed at the AGM. Details of other resolutions to be proposed at the meeting are set out in the Circular and Notice of AGM 2015, which will be made available to all shareholders together with a proxy card.

### Statement of directors' responsibilities

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

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

of the Group for that period. In preparing these financial statements, the directors are required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and accounting estimates that are reasonable and prudent;
- ▶ state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively;
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, with regards to the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and 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 Annual Report included on the Group's website in accordance with the UK legislation governing the preparation and dissemination of financial statements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the biographies on pages 6 to 7, confirm that to the best of their knowledge:

- ▶ the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- ▶ this Directors' report on pages 29 to 33, and the Financial strategy section on pages 52 to 57 and the Risk management sections on pages 31 to 37 of the Strategic Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

### Disclosure of information to auditors

In the case of each director in office at the date the Directors' report is approved, that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) the director has taken all the steps that he or she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

**Patricia Alsop**

Company Secretary

ARM Holdings plc

Company Number: 2548782

## Directors' Remuneration Report



Larry Hirst

Chairman of the Remuneration Committee

Dear Shareholder

Having taken over as Chairman of the Remuneration Committee on 1 January 2014, I am pleased to present you with ARM's Directors' Remuneration Report for 2014.

We very much value shareholders' comments on and long-standing support for our remuneration strategy. This was demonstrated again at the 2014 AGM where resolutions to approve our Remuneration Policy and the Implementation report each received more than 97% of votes cast in favour. The full details are set out in the statement of voting on page 52. We are aware of shareholders' preference that companies should not make frequent changes to policy and we will propose changes only if we believe that they would lead to better alignment between pay, strategy and long-term business performance. No changes are proposed for 2015 and if any changes are proposed for 2016, we will consult with shareholders in the second half of 2015.

The Committee seeks to ensure that a consistent policy on pay applies across the Group and takes account of pay and benefits applicable to employees below executive director level. In line with our long-standing commitment to ethical values our aim is to ensure that remuneration policies and practices drive behaviours that are in the long-term interests of the Group and its shareholders.



## Group performance in 2014

Notwithstanding the tough global market conditions that continued during 2014, we out-performed our international peer group of technology companies over the last three years, which resulted in 93.1% vesting of the LTIP awards made in 2012 when the share price was 568 pence per share and full vesting of the DAB Plan matching share awards made in respect of 2011. Bonuses earned by executive directors in respect of performance in 2014 were in the range of 49.6 to 54.5% of salary.

## Key activities of the Committee in 2014 and 2015

### Chief Executive Officer's salary

In line with good practice for internal promotions, Simon Segars was appointed as Chief Executive Officer in July 2013 initially on a below-market salary, which was increased by 3% in January 2014. During the year, the Committee reviewed his salary and overall package against practice in UK companies of similar size and complexity (with reference to revenue and market capitalisation). The Committee also took into account Simon Segars' strong performance in the role since his appointment and concluded that his salary should be aligned with the external market. This review concluded that an increase of 11.65% from £515,000 for 2014 to £575,000 for 2015 was appropriate given his capability and performance and the scale and complexity of the Group. The new salary is within our Remuneration Policy and is consistent with ARM's philosophy of setting salaries, bonuses and benefits at appropriately competitive levels, with the main emphasis on long-term, performance-driven share-based rewards.

It is anticipated that future increases for the Chief Executive Officer will be more closely aligned with those applicable to employees generally and will, as usual, be subject to continued high performance from both the individual and the Group.

## New Chief Financial Officer's package

The Committee also approved a pay and benefits package for Chris Kennedy on his appointment as Chief Financial Officer. The salary at appointment is £475,000 and the ongoing package will be in line with our Remuneration Policy. A one-off deferred cash and share award will be made in line with share benefits foregone from his previous employer on exit, which is within the clear boundaries set by our Remuneration Policy. The Committee believes that this is the appropriate package given the skills and experience of the person appointed and the nature of the role. Details are set out on page 39.

### Other activities included:

- ▶ approval of a base pay increase for the executive directors of 3.00% for 2014 and 3.00% for the CTO for 2015 compared to the weighted average increases for the workforce as a whole of 4.35% for 2014 and 4.78% for 2015;
- ▶ approval in principle of pro-rated vesting under the LTIP and Deferred Annual Bonus (DAB) Plan for Chief Financial Officer Tim Score on his retirement from the Group in 2015. These payments are in line with our Remuneration Policy on the basis that he meets the good leaver criteria under the plans. No other payments are being made in connection with his retirement;
- ▶ review of individual directors' and Group performance against bonus targets for 2014;
- ▶ setting of performance targets for the bonus plan for 2015;
- ▶ reviewing of performance targets for the LTIP awards in 2015, which will be unchanged for those used in 2014;
- ▶ appointment of Mercer in 2014 as independent remuneration consultants to advise both the Committee and the Group following a review of alternative providers.

There were no other areas where the Committee exercised discretion in 2014 or to date in 2015.

## Remuneration principles

The key focus of remuneration at ARM is long-term performance. Salaries, bonuses and benefits are set at competitive levels overall with the main emphasis on long-term, performance-driven share-based reward. In particular:

- ▶ A significant proportion (i.e. more than 70%) of total potential remuneration is performance-related;
- ▶ Salaries, bonuses and benefits are appropriately competitive but are generally no higher than market median;
- ▶ The largest element in the remuneration package is the long-term incentive. This offers the possibility for executives to earn significant sums when performance is above the target range and the share price appreciates. However, if performance is below the target range, no shares will vest. 50% of the shares that do vest after three years are subject to further deferral;
- ▶ Annual bonus is driven primarily by financial performance. Bonus payments are impacted by strategic goals and individual objectives. No payments are made if financial performance is below threshold;
- ▶ Our shareholding requirements (200% of salary for executive directors and executive committee members) help to maintain commitment over the long-term and ensure the interests of our senior management team are aligned with those of shareholders. Details of directors' holdings are set out on page 49.

## Directors' Remuneration Report continued...

Other key principles are:

- ▶ Benchmarking provides a useful reference point but not a target range for salaries, incentives or other benefits.
- ▶ Remuneration packages should be as simple as possible, given the scale and complexity of the business and the requirements of investors. For this reason, generally only two incentive plans are in operation for executive directors – an Annual Bonus which is payable in cash and awards under the LTIP which are payable in shares.
- ▶ The Group's strategy and business objectives are the primary considerations when selecting appropriate performance measures for our incentive plans.

Finally, ARM is a people business that depends on being able to attract, develop and retain top quality talent. The Remuneration Committee takes an active interest in the level and structure of pay and conditions elsewhere in the Group, including how they compare to those of the executive directors. It has always been part of ARM's ethos and is essential to our culture of collaboration and innovation to include all of our employees in our equity plans.

### Dilution

We believe it is important for us to continue to have flexibility to make awards above the level of 5% over ten years. We make share awards to all of our employees and also we need to be able to compete worldwide to attract and retain the high-calibre engineers and executives we require. Dilution over the past five years has been 4.58%.

We continue to take an active interest in investors' views on remuneration policy, which we were able to discuss directly with many shareholders through the consultation undertaken in 2013 in connection with the new LTIP and in early 2014 over the EPS targets applicable to the new LTIP.

Building on the new reporting structure implemented last year in line with the remuneration disclosure regulations, the rest of this report comprises two sections:

- ▶ Firstly an Implementation report explaining remuneration arrangements for the directors as they operated in 2014 and explaining the linkage between Group performance and remuneration. This report will be subject to an advisory shareholder vote at the 2015 AGM.
- ▶ Secondly (for information) our Remuneration Policy, which was overwhelmingly supported by shareholders at the 2014 AGM and to which no changes are proposed for 2015.

We look forward to receiving your continued support at the AGM on 30 April 2015.

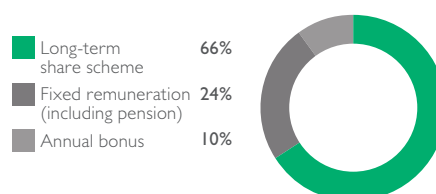
**Larry Hirst**

Chairman of the Remuneration Committee

### Contents of the Remuneration report

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Relative importance of elements of total remuneration in 2014



## Annual report on remuneration (Implementation report)

We set out below how our Remuneration Policy was implemented during 2014 and how we plan to implement it in 2015.

## Single figure remuneration:

<i>Executive Director</i>	<i>Total amount of salary £</i>	<i>All taxable benefits £</i>	<i>Bonus payments £</i>	<i>Money and other assets receivable for periods of more than one financial year £</i>	<i>All pension-related benefits £</i>	<i>Total £</i>
<b>Simon Segars 2014</b>	<b>515,000</b>	<b>154,655</b>	<b>280,826</b>	<b>1,277,508</b>	<b>56,024</b>	<b>2,284,013</b>
Simon Segars 2013	400,000	73,186	543,454	1,207,360	44,000	2,268,000
<b>Tim Score 2014</b>	<b>427,450</b>	<b>27,004</b>	<b>211,896</b>	<b>1,825,432</b>	<b>45,481</b>	<b>2,537,263</b>
Tim Score 2013	415,000	26,031	599,374	1,727,783	44,156	2,812,344
<b>Mike Muller 2014</b>	<b>293,550</b>	<b>14,924</b>	<b>146,019</b>	<b>1,259,822</b>	<b>33,112</b>	<b>1,747,427</b>
Mike Muller 2013	285,000	14,940	403,718	1,193,633	32,148	1,929,439
<b>Total 2014</b>	<b>1,236,000</b>	<b>196,583</b>	<b>638,741</b>	<b>4,362,762</b>	<b>134,617</b>	<b>6,568,703</b>
Total 2013	1,100,000	114,157	1,546,546	4,128,776	120,304	7,009,783

This table, as well as the explanation below, has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by the Companies Act 2006.

## Explanation of single figure remuneration:

The single figure of remuneration table provides details of pay and benefits earned by a director in respect of the particular calendar year. Not all of the remuneration is paid in that year.

For the first half of 2013, Simon Segars' salary was £300,000. Following his appointment as CEO on 1 July 2013 his salary increased to £500,000, resulting in an average for the year of £400,000. From 1 January 2014 his salary was increased by 3% from £500,000 to £515,000.

All the executive directors receive family healthcare and annual travel insurance as part of their benefits in kind. In addition, Tim Score has the use of a company car with fuel benefit and Mike Muller receives car and fuel allowance. Simon Segars received £143,332 (2013: £61,283) for living, transportation and other allowances as part of his placement in the US.

The bonuses earned during 2014 were paid in cash in February 2015. The 2013 bonus was awarded under the former Deferred Annual Bonus (DAB) Plan (which operated for the last time in respect of performance in 2013) and 50% was deferred and will become payable in shares after three years. Details of the awards made in February 2014 in respect of these deferrals are set out on page 43.

The money and other assets receivable for periods of more than one financial year are the amounts received by directors on the vesting of shares in February 2015. These shares were awarded in February 2012 under two schemes: the Long-Term Incentive Plan (LTIP) and the matching element of the former DAB Plan. The amounts received are included in the single figure of remuneration for 2014 since the performance period for these schemes both concluded in 2014.

Share prices applicable to grant and vesting of share awards:

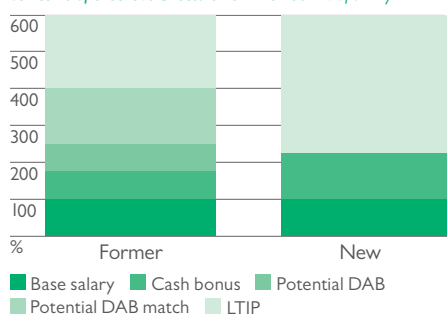
February 2012 – 568.0 pence  
 February 2013 – 924.5 pence  
 February 2014 – 896.0 pence  
 February 2015 – 1,087.0 pence

Annual report on remuneration (Implementation report) continued...

## Remuneration summary:

From 2014 remuneration for executive directors comprises three principal elements:

Structure of executive directors' remuneration % of salary



**Base salary:** to provide an appropriately competitive level of base salary in order to enable the Group to recruit, retain and motivate executive directors of the calibre required to achieve the Group's business strategy and goal of sustained growth in corporate performance. The Committee is able to consider corporate performance on environmental, social and corporate governance issues when setting the remuneration of executive directors.

**Annual bonus:** maximum of 125% of base salary, paid in cash with the goal of incentivising executive directors to achieve profit and revenue targets that each account for 50% of target bonus. These targets are directly linked to the Group's short-term financial and strategic goals and are regarded as the best drivers to increase market share and continue the Group's outperformance of semiconductor market growth. 85% of base salary is payable at target. Bonus is subject to an individual performance multiplier, which flexes the payment by 0.75 to 1.25, subject to the overall maximum of 125% of salary.

**LTIP:** annual conditional share awards are made at 187.5% of base salary with the ability for vesting of between 0% and 200% of that amount after three years dependent on achievement of performance conditions. Dividend shares are added at vesting. The performance measures and rationale for choosing them are described in more detail on page 44.

There are further holding periods of one year for 25% of the vested shares and two years for a further 25% of the vested shares. During these holding periods, shares may not normally be sold even if the participant has left the Group.

Full details of our Remuneration Policy as approved by shareholders at the 2014 AGM is set out on pages 54 to 60.

### Base salary increases for 2014 and 2015

Executive directors' annual base salaries were increased as follows:

	<i>From 1 January 2014</i>	<i>% increase 2013-2014</i>	<i>From 1 January 2015</i>	<i>% increase 2014-2015</i>
<b>Simon Segars</b>	£515,000	3%	<b>£575,000</b>	<b>11.65%</b>
<b>Tim Score</b>	£427,450	3%	<b>£427,450</b>	<b>0.00%</b>
<b>Mike Muller</b>	£293,550	3%	<b>£302,360</b>	<b>3.00%</b>

For 2014, the average increase in base salaries for the executive directors was 3.00% and the average increase for the workforce as a whole was 4.35%. For 2015 the weighted average increase is 5.57% for the executive directors and 4.78% for the workforce as a whole. The reason for the higher increase for the executive directors is the larger than average increase for Simon Segars. In line with good practice for internal promotions, Simon Segars was initially appointed as Chief Executive Officer on a below-market salary. During the year, the Committee reviewed his salary and overall package against practice in UK companies of similar size and complexity (including revenue and market capitalisation). The Committee also took into account Simon Segars' strong performance in the role since his appointment in July 2013 and concluded that his salary should be aligned with the external market. This review concluded that an increase of 11.65% from £515,000 for 2014 to £575,000 for 2015 was appropriate given the capability and performance of the individual and the scale and complexity of the Group. The new salary is consistent with ARM's philosophy of setting salaries, bonuses and benefits at competitive levels, with the main emphasis on long-term, performance-driven share-based rewards. It is anticipated that future increases for the Chief Executive Officer will be more closely aligned with those applicable to employees generally and will, as usual, be subject to continued high performance from both the individual and the Group.

Across the Group, the increase for 2015 is in a range of 3.84% for the US rising to 9.03% in Asia, reflecting local market conditions and salary inflation.

### New Chief Financial Officer package

The appointment of Chris Kennedy as Chief Financial Officer designate was announced on 8 January 2015. He will join the Board as a director and Chief Financial Officer once he has completed his current commitments. The key elements of the package, which are in line with our Remuneration Policy are:

Salary – £475,000;

Bonus – maximum 125% of salary, to be pro-rated for actual service in 2015, subject to the same performance conditions as apply to the other executive directors and an individual performance multiplier;

One-off cash award – a payment of £950,000 (less payroll taxes) will be made in January 2016 to compensate for part of the equity benefits foregone in his previous role and will be subject to clawback in the event of resignation or termination for cause in the following 12 months;

RSU award – a grant of restricted stock units to compensate for the remainder of equity benefits foregone in his previous role with a value of up to £950,000 (the number of restricted stock units to be based on the share price at the date of grant);

LTIP award – an award in line with Policy, to be pro-rated for actual service in 2015, based on the closing share price on the day prior to award and subject to the same performance conditions as apply to the other executive directors as set out in the Remuneration policy on page 54;

Pension – an employers' contribution of 10% of salary.

Annual report on remuneration (Implementation report) continued...

### Annual bonus plan for 2014

For 2014 onwards, bonuses are paid wholly in cash. Target bonus is 85% and maximum bonus is 125% of base salary (after application of an individual performance multiplier).

Individual performance conditions linked to business strategy are specific to each executive director and are set annually. These flex the amount of bonus by a factor of 0.75 to 1.25, subject to the overall maximum of 125% of salary. The Committee reviews the extent of achievement of specific individual performance conditions in arriving at the individual performance multiplier.

The Committee retains discretion to adjust bonus targets for any financial year to reflect intervening events including acquisitions or disposals. No such discretion was exercised in 2014.

### Key Performance Indicators and linkage to bonus targets



The Group's strategy, key performance indicators and progress towards achieving them are described in more detail in the Strategic Report on pages 22 to 30. The adoption of revenue and normalised operating profit as performance measures for the bonus targets demonstrates alignment of executive reward with our strategic goals.

## 2014 Bonus targets and achievement

The targets that applied to the 2014 bonus and the achievement against those targets were:

(Audited):

	<i>Threshold</i>	<i>Budget</i>	<i>Target</i>	<i>Achievement</i>	<i>Bonus % achieved</i>
Normalised Operating Profit	£332.6m	£421.2m	£449.6m	£425.6m	<b>28.86%</b>
Group Revenue	US\$1,117.8m	US\$1,279.2m	US\$1,354.2m	US\$1,292.6m	<b>29.46%</b>
Bonus % of Target	0%	50%	100%		<b>58.32%</b>
<b>Bonus % of salary</b>	<b>0%</b>	<b>42.5%</b>	<b>85%</b>		<b>49.57%</b>

\* NOP for bonus purposes is calculated using the Group budget exchange rate of £1:US\$1.55 for 2014.

## General

- ▶ For each element, bonus pays out linearly between the threshold and the budget and between the budget and the target.
- ▶ Above target, bonus continues to pay out linearly. Over-achievement of either the profit or revenue targets can compensate for a shortfall in the other (subject to the overall maximum of 125% of salary).

## Annual bonus payment for 2014

The executive directors received the following bonus payments in respect of the performance of the Group in 2014 (audited):

<i>Director</i>	<i>Salary £</i>	<i>Bonus % achieved</i>	<i>Individual multiplier</i>	<i>Total bonus %</i>	<i>Percentage of salary %</i>	<i>Bonus paid £</i>
Simon Segars	515,000	58.32	1.10	64.15	54.53	<b>280,826</b>
Tim Score	427,450	58.32	1.00	58.32	49.57	<b>211,896</b>
Mike Muller*	293,550	58.32	1.00	58.32	49.57	<b>145,519</b>

\* In addition to his annual bonus, Mike Muller received a £500 bonus for filing a patent.

## Annual bonus for 2014 – achievement of individual performance measures

It should be noted that, when applied to the executive directors, the individual performance multiplier normally falls within a relatively narrow range at the upper end. This results from the fact that maintaining a very high level of performance is a pre-requisite to continuation in the role of executive director. Performance is reviewed in-depth on at least an annual basis by the Chief Executive Officer (for the other executive directors) and by the Chairman for the Chief Executive Officer. These assessments are then reviewed by the Remuneration Committee. For performance in 2014, the individual performance conditions included objectives related to the following areas:

Simon Segars	Succession planning and key appointments Executive team effectiveness Progress in development of strategy
Tim Score	Organisational scaling Investment strategy
Mike Muller	IoT business strategy Investment strategy to complement R&D activities University programme

The individual multipliers approved by the Committee are shown in the table above.



Annual report on remuneration (Implementation report) continued...

### Bonus history 2010-2014

The bonus targets set by the Committee for each year are intended to be stretching but motivational. The average bonus paid to the executive directors over the past five years was 119% of salary (with a range from 52% payout for 2014 to 150% for 2011) as shown below:

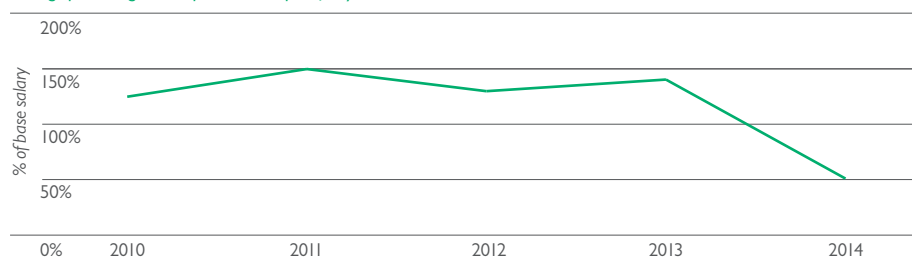
### Annual bonus for 2015

Bonus in respect of 2015 will be paid entirely in cash. Each year the Committee considers the most appropriate metrics to apply for the following financial year. Growth in revenue and profit are regarded as the most appropriate drivers to increase market share and continue the Group's outperformance of semiconductor market growth. They are the focus of our quarterly reporting to shareholders and to the market. The bonus structure for 2015 will be in line with that described above for 2014. The numerical financial targets and individual performance conditions will be specific to 2015 and will be disclosed retrospectively in the 2015 Annual Report. The Committee is of the opinion that the numerical values of targets for the Annual Bonus Plan are commercially sensitive because they include budgeted numbers within the range of outcomes and it would be detrimental to the Group to disclose them in advance of, or during, the relevant performance period. The actual targets are disclosed retrospectively in the following financial year.

### Former Deferred Annual Bonus Plan (DAB Plan)

Under the former DAB Plan, which operated for the last time in relation to 2013, 50% of bonus was compulsorily deferred into shares, which do not vest for three years. For the remaining awards, the last of which will vest in February 2017, at normalised EPS growth equal to the increase in the Consumer Prices Index (CPI) plus 4% per annum, the deferred shares will be matched on a 0.3:1 basis, rising to 2:1 when normalised EPS growth is in excess of CPI plus 12% per annum. The deferred shares can be forfeited in the event of gross misconduct and the matching shares are subject to forfeiture for "bad leavers".

Average percentage bonus paid over the past five years to executive directors



### Notes:

1. For 2010, maximum bonus was limited to 125% of base salary.
2. For 2011, 2012 and 2013, maximum bonus was 150% of base salary.
3. For 2014 onwards, maximum bonus is 125% of base salary.

### Former DAB Plan vesting in 2014 (audited)

Shares representing the deferred element of bonus earned in 2010 and awarded in 2011 vested on 8 February 2014, with the maximum 2:1 ratio of matching shares being earned. This ratio was achieved because normalised EPS growth before inflation was 120%, which is greater than CPI plus 12% per annum on average for the three years making up the performance period. The amounts are shown below:

<i>Director</i>	<i>Shares deferred as part of 2010 bonus awarded in 2011</i> <i>Number</i>	<i>Matching shares</i> <i>Number</i>	<i>Matching shares value</i> <i>£</i>	<i>Dividend shares</i> <i>Number</i>	<i>Total award</i> <i>Number</i>
Simon Segars	26,391	52,782	472,927	456	79,629
Tim Score	37,847	75,694	678,218	654	114,195
Mike Muller	26,084	52,168	467,425	451	78,703
<b>Total</b>	<b>90,322</b>	<b>180,644</b>	<b>1,618,570</b>	<b>1,561</b>	<b>272,527</b>

The market value of an ARM share on the date of vesting was 896.0 pence (based on the closing market price the previous day).

### Former DAB Plan vesting in 2015 (audited)

Shares representing the deferred element of bonus earned in 2011 and awarded in 2012 vested on 12 February 2015, with the maximum 2:1 ratio of matching shares being earned. This ratio was achieved because normalised EPS growth before inflation was 92.8%, which is greater than CPI plus 12% per annum on average for the three years making up the performance period. The amounts are shown below:

<i>Director</i>	<i>Shares deferred as part of 2011 bonus awarded in 2012</i> <i>Number</i>	<i>Matching shares</i> <i>Number</i>	<i>Matching shares Value</i> <i>£</i>	<i>Dividend shares</i> <i>Number</i>	<i>Total award</i> <i>Number</i>
Simon Segars	35,387	70,774	769,314	661	106,822
Tim Score	50,572	101,144	1,099,435	945	152,661
Mike Muller	34,991	69,982	760,704	654	105,627
<b>Total</b>	<b>120,950</b>	<b>241,900</b>	<b>2,629,453</b>	<b>2,260</b>	<b>365,110</b>

The market value of an ARM share on the date of vesting was 1,087 pence (based on the closing market price on the previous day).

### The total number of deferred shares held under the former DAB Plan by the executive directors is:

<i>Director</i>	<i>Shares deferred as part of the 2012 bonus</i> <i>Number</i>	<i>Shares deferred as part of the 2013 bonus</i> <i>Number</i>	<i>Total</i> <i>Number</i>
Simon Segars	20,045	30,327	50,372
Tim Score	28,637	33,447	62,084
Mike Muller	18,900	22,501	41,401
<b>Total</b>	<b>67,582</b>	<b>86,275</b>	<b>153,857</b>

Annual report on remuneration (Implementation report) continued...

### LTIP vesting in 2015 (audited)

The performance conditions applicable to the conditional awards granted on 8 February 2012 were satisfied in respect of the performance period ended 31 December 2014 to the extent of 93.1% plus dividend shares which vested on 12 February 2015, as follows:

Director	Conditional award Number	Vested award Number	Dividend shares Number	Total award Number	Market value at vesting £
Simon Segars	49,295	45,893	859	46,752	508,194
Tim Score	70,422	65,562	1,227	66,789	725,997
Mike Muller	48,415	45,074	843	45,917	499,118
<b>Total</b>	<b>168,132</b>	<b>156,529</b>	<b>2,929</b>	<b>159,458</b>	<b>1,733,309</b>

The market value of an ARM share on the date of vesting was 1,087 pence (based on the closing market price on the previous day).

The amount vested above is based on the total shareholder return calculated by using the average share price from 1 January to 31 March at the commencement of the performance period and the average share price from 1 October to 31 December at the end of the performance period, as shown below:

Comparator Group	ARM TSR percentile rank	Vesting multiplier
FTSE 350 Index	59.1%	84.1%
FTSE All World Technology Index	63.9%	102.1%
Overall		93.1%

The assessment of ARM's TSR percentile rank is independently verified by Kepler Associates.

The amounts earned by each executive director are included in the money and other assets receivable for periods of more than one financial year in the single figure remuneration table on page 37. The awards received by the executive directors in February 2015 are as follows:

Director	Market value of LTIP at vesting £	Market value of DAB matching shares at vesting £	Total received £
Simon Segars	508,194	769,314	1,277,508
Tim Score	725,997	1,099,435	1,825,432
Mike Muller	499,118	760,704	1,259,822
<b>Total</b>	<b>1,733,309</b>	<b>2,629,453</b>	<b>4,362,762</b>

### LTIP – performance measures for 2014 and 2015

Performance measures for the LTIP were selected after careful consideration by the Committee, following consultation with larger shareholders. The Committee believes that the use of both TSR and EPS performance measures provide the best alignment to the Group's long-term financial and strategic goals and encourages, reinforces and rewards the delivery of sustainable shareholder value.

The EPS range was set for awards made in 2014 and, following review in December 2014, the Committee has decided that it should continue unchanged for 2015. The Committee will review, applicability of performance conditions on an annual basis, so that in the event that exceptional circumstances arise, such as material corporate activity or substantial changes in market conditions, their impact can be considered against subsequent annual awards. If changes are to be proposed for any prospective LTIP award, it would be the Committee's intention to confirm any such change to shareholders in advance.

Analysts' targets are acknowledged as important reference points for the markets, but there are a number of factors beyond the control of the Group and the executive directors that may impact medium- to long-term EPS performance (such as macro or semiconductor industry cycles and currency fluctuations). These may have impacts that would not necessarily be seen as underperformance by the Group. The Committee is also keen not to encourage short-term views or behaviour where, in theory, investment in the long-term future (either organically or by acquisition) may be discouraged if the EPS range is set at too high a level.

### Summary of share awards under the LTIP and DAB

Details of conditional awards made in the year to 31 December 2014 under the LTIP and deferred shares granted under the DAB Plan in the year to 31 December 2014 to the directors are as follows (audited):

Director	Type of award	Basis of award	Date of award	Number of shares	Share price at award date ****£	Vesting date ***	Face value *£	% vesting at threshold **
Simon Segars	LTIP	187.5% of salary	8 February 2014	107,770	8.96	8 February 2017	1,931,238	50%
Simon Segars	DAB	50% of bonus paid in respect of 2013	8 February 2014	30,327	8.96	8 February 2017	543,460	100%
Tim Score	LTIP	187.5% of salary	8 February 2014	89,449	8.96	8 February 2017	1,602,926	50%
Tim Score	DAB	50% of bonus paid in respect of 2013	8 February 2014	33,447	8.96	8 February 2017	599,370	100%
Mike Muller	LTIP	187.5% of salary	8 February 2014	61,429	8.96	8 February 2017	1,100,808	50%
Mike Muller	DAB	50% of bonus paid in respect of 2013	8 February 2014	22,501	8.96	8 February 2017	403,218	100%

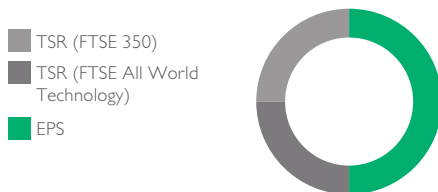
\* Face value represents the amount receivable under the award based on the maximum number of shares receivable under the LTIP and the maximum number of matching shares under the DAB Plan at the mid-market closing price on the business day prior to grant.

\*\* Threshold for the LTIP is 50% vest when certain TSR-related criteria are met. All DAB shares will vest after three years. Additional matching shares may be granted depending on EPS growth (see page 42 for details).

\*\*\* There are further holding periods of one year for 25% of the vested shares and two years for a further 25% of the vested shares under the LTIP.

\*\*\*\* Share price at award date is based on the closing market price on the previous day.

### TSR and EPS performance measures



**EPS:** 25% of this element vests at threshold and 100% at the upper performance target (straight-line in between). Threshold is three years' EPS growth of 15% per annum (including CPI) and the upper performance target is three years' EPS growth of 22% per annum (including CPI)

**TSR (FTSE 350):** three-year TSR growth relative to the FTSE 350: 25% of this element vests at median and 100% vests at upper quintile (straight-line in between)

**TSR (FTSE All World Technology Index):** 25% of this element vests at median and 100% vests at upper quintile (straight-line in between)

Annual report on remuneration (Implementation report) continued...

### LTIP awards for 2015

The following conditional awards over ordinary shares were made under the LTIP on 12 February 2015:

Director	Conditional award Number
Simon Segars	99,183
Tim Score	—
Mike Muller	52,115

The mid-market closing price of an ordinary share on 11 February 2015, being the business day prior to the date of these conditional awards, was 1,087 pence.

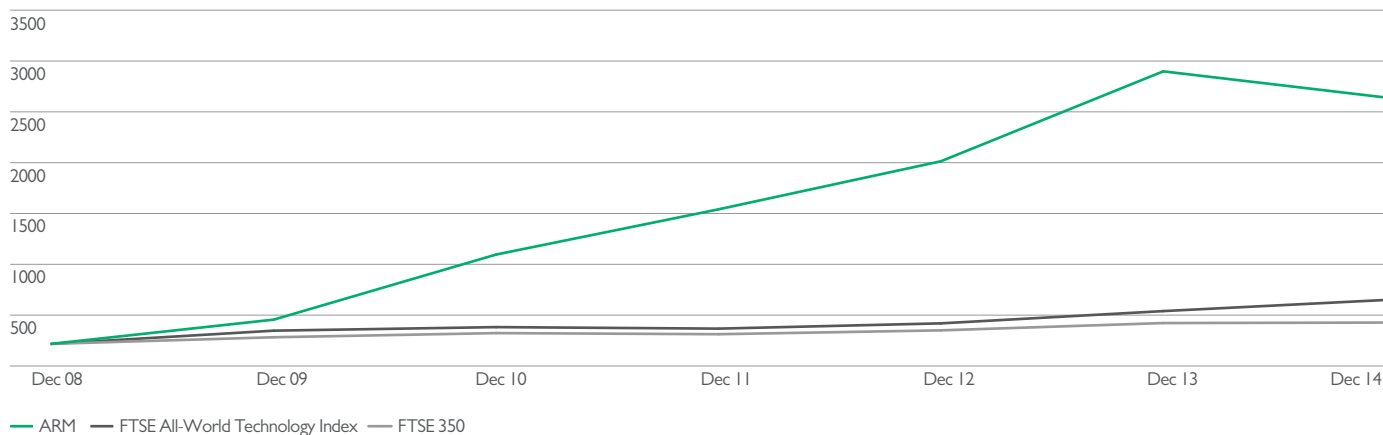
### Performance graphs

A performance graph showing the Company's TSR together with the TSRs for the FTSE All-World Technology Index and the FTSE 350 from 31 December 2008 is shown below. The TSR has been calculated in accordance with the Directors' Remuneration Report Regulations 2002.

The TSR for the Company's shares was 1112% over this period compared with 96% for the FTSE All-World Technology Index for the same period.

The Committee considers the FTSE All-World Technology Index to be an appropriate choice as the Index contains companies from the US, Asia and Europe and therefore reflects the global environment in which the Group operates. In addition, the Index includes many companies that are currently the Group's customers, as well as companies that use ARM technology in their end products.

ARM total shareholder return performance from 31 December 2008 to 31 December 2014



### CEO's pay for the last six financial years

Year	2009	2010	2011	2012	2013	2014
CEO's total single figure £*						
Warren East (retired 30 June 2013)	2,010,584	7,570,679	7,744,982	6,709,569	3,415,729	—
Simon Segars (appointed CEO 1 July 2013)	—	—	—	—	2,064,907	2,284,013
CEO's total single figure £	2,010,584	7,570,679	7,744,982	6,709,569	5,480,636	2,284,013
Bonus % of maximum award %	67%	100%	100%	85%	91%	44%
LTIP % of maximum vesting %	91%	100%	100%	100%	92%	47%
DAB matching % of maximum vesting %	0%	100%	100%	100%	100%	100%

\* Warren East retired on 30 June 2013 and was succeeded by Simon Segars. The CEO's total single figure for 2013 represents the pay, benefits and pension received by Warren East for the first half of the year as well as the market value at vesting of the shares received by him on his retirement under the rules of the LTIP and DAB Plan. This figure also includes the pay, benefits, bonus and pension received by Simon Segars for the second half of the year as well as the market value of the shares received by him under the LTIP and DAB Plan in respect of the financial year to 31 December 2013. The percentages of maximum awards and vesting achieved in 2013 are those received by Simon Segars.

### Pensions

The Group does not operate its own pension scheme but makes payments into a group personal pension plan, which is a money purchase scheme. For executive directors, the normal rate of Group contribution is 10% of the executive's basic salary, or 11% in the case of the Chief Executive Officer (plus, if applicable, additional amounts in accordance with the Group's salary sacrifice scheme). Full details of Group contributions are set out in the directors' emoluments table later in this report. Since 2011, to the extent that contributions cannot be made in a tax-efficient way at the 10/11% of basic salary level, the difference is paid as an additional cash allowance (and subject to appropriate tax and other deductions). Contributions to the scheme or the alternative cash allowance have been fully paid with respect to the year.

### Compensation for loss of office (audited)

No payments were made during 2014 to former executive directors by way of compensation for loss of office, or pay in lieu of notice.

### Payments to past directors (audited)

No payments were made to past directors during 2014.

### Non-executive directors

In line with fee arrangements in place in other companies of similar size and complexity, the executive directors implemented the following fee arrangements from 1 January 2014:

- ▶ A standard fee of £60,000 per annum
- ▶ Additional fees for Committee Chairmen and the Senior Independent Director of £16,000 per annum

Annual report on remuneration (Implementation report) continued...

### Chairman and non-executive directors' remuneration

Fees paid to the Chairman and the standard non-executive director fee will remain at the same level in 2015 as for 2014, as will the additional fee paid to the Senior Independent Director. The Committee Chairmen's fee will increase from £16,000 to £20,000 per annum. This is believed to more fairly reflect the workload undertaken by Committee Chairmen.

The fees paid to the Chairman and the non-executive directors in respect of 2013 and 2014 and proposed to be paid in 2015 are set out below:

<i>Director</i>	<i>Total proposed fee 2015 £</i>	<i>Actual fee 2014 (audited) £</i>	<i>Actual fee 2013 (audited) £</i>
Stuart Chambers (appointed 27 January 2014)	400,000	338,333	—
Andy Green*	60,000	64,000	55,000
Larry Hirst	80,000	76,000	55,000
John Liu** (appointed 1 December 2014)	60,000	5,000	—
Janice Roberts**	60,000	67,592	61,399
Kathleen O'Donovan	96,000	92,000	70,000
Eric Meurice (retired 31 March 2014)	—	20,000	27,500
John Buchanan (retired 1 May 2014)	—	76,897	390,000
Philip Rowley (retired 1 May 2014)	—	20,230	70,000

\* A one-off additional fee of £4,000 was paid to Andy Green in 2014 for attending ARM Asia Advisory Group meetings to reflect the additional time commitment.

\*\* Additional fees are paid to non-executive directors who are based outside the UK and travel to the UK for Board meetings as follows: Janice Roberts \$2,500 per meeting, John Liu £2,000 per meeting. This is to reflect their additional time commitment.

Non-executive directors do not have service contracts and are not eligible to participate in bonus or share incentive arrangements. Their service does not qualify for pension purposes or other benefits, and no element of their fees is performance-related.

### The potential awards held by the executive directors under the LTIP as at 31 December 2014 are as follows:

<i>Director</i>	<i>Date of award</i>	<i>Minimum potential number of shares receivable Number</i>	<i>Maximum potential number of shares receivable Number</i>	<i>Market value at date of award £</i>	<i>Maximum potential value at date of award £</i>
Simon Segars	8 February 2012	—	98,590	5.68	559,991
	8 February 2013	—	64,898	9.245	599,982
	13 August 2013	—	22,560	8.865	199,994
	8 February 2014	—	215,540	8.96	1,931,238
<b>Total</b>		—	401,588		<b>3,291,206</b>
Tim Score	8 February 2012	—	140,844	5.68	799,994
	8 February 2013	—	89,778	9.245	829,998
	8 February 2014	—	178,898	8.96	1,602,926
<b>Total</b>		—	409,520		<b>3,232,918</b>
Mike Muller	8 February 2012	—	96,830	5.68	549,994
	8 February 2013	—	61,654	9.245	569,991
	8 February 2014	—	122,858	8.96	1,100,808
<b>Total</b>		—	281,342		<b>2,220,793</b>



The potential matching shares on the awards held by the executive directors under the DAB Plan as at 31 December 2014 are as follows:

Director	Date of award	Minimum potential number of shares receivable Number	Maximum potential number of shares receivable Number	Market value at date of award £	Maximum potential value at date of award £
Simon Segars	8 February 2012	—	70,774	5.68	401,996
	8 February 2013	—	40,090	9.245	370,632
	8 February 2014	—	60,654	8.96	543,460
<b>Total</b>		—	<b>171,518</b>		<b>1,316,088</b>
Tim Score	8 February 2012	—	101,144	5.68	574,498
	8 February 2013	—	57,274	9.245	529,498
	8 February 2014	—	66,894	8.96	599,370
<b>Total</b>		—	<b>225,312</b>		<b>1,703,366</b>
Mike Muller	8 February 2012	—	69,982	5.68	397,498
	8 February 2013	—	37,800	9.245	349,461
	8 February 2014	—	45,002	8.96	403,218
<b>Total</b>		—	<b>152,784</b>		<b>1,150,177</b>

Directors' shareholdings in the Company (Audited)

There is no requirement in the Articles of Association for directors to hold shares in the Company. There is a requirement for executive directors to hold shares to the value of 200% of their salary as set out in the Remuneration Policy on page 54. All of the executive directors have holdings well in excess of this requirement.

The directors' beneficial interests in the Company's ordinary shares of 0.05 pence are as follows:

Director	Shareholding at date of report Number	Shareholding at 31 December 2014 or date of retirement if earlier Number	Shareholding requirement met Number	Shares held under DAB at 31 December 2014 Number	Maximum potential shares under LTIP (excluding dividend shares) at 31 December 2014 Number	Maximum potential matching shares under DAB at 31 December 2014 Number
Stuart Chambers (appointed 27 January 2014)	10,000	10,000	N/A	—	—	—
Simon Segars	630,660	557,222	Yes	85,759	401,588	171,518
Tim Score	799,388	883,080	Yes	112,656	409,520	225,312
Mike Muller	1,305,760	1,425,442	Yes	76,392	281,342	152,784
Andy Green	—	—	N/A	—	—	—
Larry Hirst	—	—	N/A	—	—	—
John Liu (appointed 1 December 2014)	—	—	N/A	—	—	—
Kathleen O'Donovan	—	—	N/A	—	—	—
Janice Roberts	—	—	N/A	—	—	—
Sir John Buchanan (retired 1 May 2014)	N/A	—	N/A	—	—	—
Philip Rowley (retired 1 May 2014)	N/A	40,000	N/A	—	—	—
Eric Meurice (resigned 31 March 2014)	N/A	—	N/A	—	—	—

In addition to the interests disclosed above, the executive directors have interests in dividend shares that could be awarded under the former and current LTIPs and the former DAB Plan, the amount of which will depend on the extent to which the performance criteria are satisfied and on the dividends declared during the performance period. The maximum potential shares under the LTIP and the matching shares under the DAB plan are subject to performance conditions.

Annual report on remuneration (Implementation report) continued...

#### Details of options exercised by directors during the year are as follows (Audited):

Director	Number of shares	Exercise price £	Market price on date of exercise £	Gains on exercise £
Tim Score	18,208	0.854	8.48	138,854

No director has any outstanding interest in options at the date of this report. Except as described above, there have been no changes in directors' interests under the Group's equity schemes since the end of the 2014 financial year up to the date of approval of the Directors' Remuneration Report.

The Company's register of directors' interests contains full details of directors' shareholdings and options to subscribe and conditional awards under the LTIP.

#### Share dilution

It is proposed that the Group will continue to manage dilution within the context of maintaining award levels within a 10% limit over five years (excluding rolled over Artisan options), the limit that has applied since 2003. We are aware that this is higher than the limit of 5% over ten years in respect of discretionary awards and 10% over ten years in respect of all schemes adopted by many UK companies and preferred by many institutional investors. The reasons for this higher limit, which was approved by shareholders when the former LTIP was introduced, are at least as strong today. These are:

- ▶ the broad-based nature of our equity plans, under which shares are provided to all employees and are a key part of the Group's employee reward package; and
- ▶ the need to be able to compete with US companies worldwide for the high-calibre engineers and executives required to secure the Group's future success.

The Committee is keenly aware of this issue, and expects to keep well below the 10% upper limit. Dilution over the past five years has been 4.58%.

The following information is unaudited:

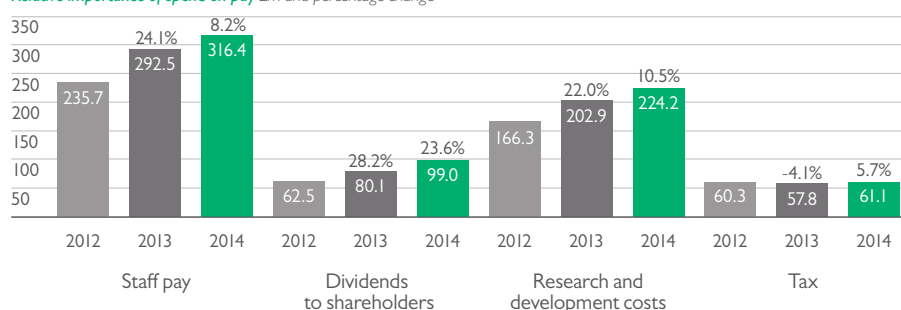
#### Comparison of CEO and employee pay and benefits

Director	CEO*	Employees
Increase, from 2013 to 2014, in:		
Base Salary	3.0%	4.8%
Benefits and pension**	98.5%	4.0%
Bonus	-48.3%	-41.2%

\* The percentages for the CEO reflect the pay and benefits for Warren East for the first half of 2013 and for Simon Segars for the second half of 2013.

\*\* The increase in the benefits and pension of the CEO in 2014 was due to allowances paid to Simon Segars as a result of his placement in the US compared to 2013 when the CEO benefits included allowances for Simon Segars for only the second half of the year from his date of appointment as CEO.

Relative importance of spend on pay £m and percentage change



This graph shows the amount spent over the past three years on the remuneration of all employees (including the executive directors) compared with the amounts spent on other significant outgoings (i.e. distributions to shareholders, investment in research and development and tax). These were the three most significant outgoings for the Group in the last financial year (excluding the exceptional items in 2013). Staff pay includes salary, bonus, social security costs, pension and healthcare costs and share-based payment charges.

### External roles

It is the Company's policy to allow executive directors to hold non-executive positions at other companies and to receive remuneration for their services. The Board believes that experience of the operations of other companies and their boards and committees is valuable to the development of the executive directors.

Details of executive directors' roles within other companies and their remuneration are as follows:

Simon Segars became a non-executive director of Dolby Laboratories, Inc. on 3 February 2015. He received an award of 7,759 RSUs with a market value of \$38.66 per share on that date. This award vests in full on the earlier of the first anniversary of award and the day before the 2016 annual stockholder meeting. Tim Score became a non-executive director of The British Land Company plc on 20 March 2014 and received shares in the company with a gross cash value of £52,730 up to 31 December 2014. He was a non-executive director of National Express Group plc until 25 February 2014 and he received remuneration totalling £16,242 up to that date (2013: £60,500 for the full year). He became a non-executive director of Pearson plc on 1 January 2015. Mike Muller is a non-executive director of Intelligent Energy Limited and he received fees totalling £49,110 up to 31 December 2014 (2013: £40,000).

### Remuneration Committee

In this section we describe the composition and activities of the Committee during 2014.

#### Committee composition and meeting attendance during 2014:

Name of director	Position	Meetings attended/ eligible meetings
Larry Hirst	Independent non-executive director (Committee Chairman from 1 January 2014)	5/5
Andy Green	Independent non-executive director	5/5
Janice Roberts	Independent non-executive director	5/5
Philip Rowley	Independent non-executive director (retired 1 May 2014)	1/1

Outside these meetings there were meetings and video/audio conference calls at which the candidates for external remuneration advisers gave presentations and the Committee discussed and agreed the appointment of new advisers, and at which the Committee discussed and agreed the remuneration package for the new Chief Financial Officer.

Given their diverse business experience, the independent non-executive directors who made up the Committee in 2014 offer a balanced view and international expertise in relation to remuneration matters for the Group. Their biographies appear on pages 6 to 7.

Annual report on remuneration (Policy) continued...

### Operation of the Committee

The Chief Executive Officer, the EVP People and the VP Reward are normally invited to attend for at least part of each meeting to ensure that the Committee is able to obtain their views on the level of compensation for executive directors and other senior executives. The Group Chairman also normally attends meetings by invitation. The Company Secretary advises the Committee on corporate governance matters and acts as Secretary to the Committee. These individuals are not present when their own remuneration is discussed. External advisers also attend meetings by invitation. Their advice and recommendations are used as a guide but do not in any way replace the Committee's own deliberations and decisions.

The Committee's terms of reference are published on the corporate website at [www.arm.com](http://www.arm.com).

The principal items of business dealt with by the Committee during 2014 and early 2015 are described in the Committee Chairman's initial letter.

### External advisers

The Committee has access to independent professional advice on remuneration matters. Following a competitive tender process, Mercer was appointed by the Committee in April 2014 in place of Towers Watson and also provides advice to management. Mercer is a member of the Remuneration Consultants Group and adheres to its Code of Conduct, which incorporates principles of transparency, integrity, objectivity, competence, due care and confidentiality. On the basis of Mercer's confirmation of adherence to this Code and the detailed advice they have given since appointment, Committee members are satisfied that their advice is objective and independent. It is also satisfied that their fees are in line with market practice. Fees are charged at an hourly rate based on an agreed fee rate and fee quotations are provided in advance for any significant elements of work.

Work undertaken by Mercer for the Committee in 2014 included analysis and advice on the package for the new Chief Financial Officer, review and making recommendations in relation to the Directors' Remuneration Report for 2014, analysis of executive benchmarking data and preparation for and attendance at Remuneration Committee meetings. Total fees of £63,000 were paid to Mercer in 2014. In addition, Mercer provided advice to the People Team on aspects of reward and incentives. Towers Watson also undertook work for the Committee in early 2014 which included preparation and attendance at a Remuneration Committee meeting, advice on EPS targets for the LTIP, review of the Directors' Remuneration Report for 2013, bonus plan documentation and shareholder communications. Total fees of £40,000 were paid to Towers Watson for advice to the Committee during the year (2013: £52,000). Towers Watson continue to provide executive benchmarking data for use by the Group (not included in the fees). The Committee also received advice from Kepler Associates who provided independent verification of Total Shareholder Return (TSR) calculations for the LTIP. Kepler also provided a valuation model for the LTIP to the Group to assist with the calculation of share compensation charges.

### 2014 AGM – Statement of voting

At the 2014 AGM voting was as follows:

Remuneration report: 97.49% vote in favour out of a total of 1,108,180,964 votes cast (with 2.51% votes against and 5,759,821 votes withheld).

Remuneration Policy: 97.58% vote in favour out of a total of 1,099,892,911 votes cast (with 2.42% votes against and 14,047,874 votes withheld).

### Remuneration Policy

The Directors' Remuneration Policy in the table on pages 54 to 60 was approved by shareholders at the Annual General Meeting on 1 May 2014. It applies to the executive directors at the date of this report and is intended to apply for three years from adoption in relation to any new executive director appointments.

We believe that sustained growth can be successfully achieved only with a high level of employee engagement and motivation. We believe that it is in shareholders' best interests that the Group is able to attract the best talent in the world within our specialised market. All elements of pay and benefits set out in the policy table are regarded as necessary to recruit, retain and motivate appropriately skilled executives and align their remuneration to the long-term success of the Group. The structure of appropriately competitive base salaries and higher potential incentives supports both short- and long-term strategy and has proved both motivational and successful in achieving strong business performance over the past few years.

This Remuneration Policy section of the report has been prepared in accordance with Schedule 8 to the Large- and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Committee has also taken into account the principles set out in Schedule A to the UK Corporate Governance Code (September 2014) published by the Financial Reporting Council, the Listing Rules of the Financial Conduct Authority and the ABI's Principles of Remuneration published in November 2013.

The Committee is able to consider corporate performance on environmental, social and corporate governance issues when setting the remuneration of executive directors. It also takes account of pay and conditions elsewhere in the Group. In particular, the Committee is mindful of the fact that all employees receive share awards under the Group's equity plans.

The Committee does not specifically consult with employees when setting and reviewing remuneration policy for the executive directors; however, it does review the salary increases for all Executive Committee members against the general employee pay award each year to ensure that there is fairness. Employees have an opportunity to raise any concerns over pay and benefits through the annual employee engagement survey or direct with their line manager. The EVP People and the VP Reward attend meetings by invitation and are available to answer the Committee's questions on wider employee remuneration matters.

### Shareholding requirements

In order to align executives' interests with those of shareholders over a longer time period, from 2014 onwards all Executive Committee members are required to build a shareholding of 200% of base salary (an increase from the previous level of 100% of base salary). For other participants in the LTIP, the shareholding requirement has increased from 50% to 100% of base salary.

Unvested shares under the LTIP and former DAB Plan do not count towards the shareholding requirements. Until these levels are achieved, no more than 50% of shares received through vesting under the DAB Plan and LTIP (after the automatic sale of shares to satisfy tax liabilities) can be disposed of by participants. For 2014 a transitional arrangement applied for participants below Executive Committee level under which 20% of net shares vesting must be retained. This increased to 50% for 2015 onwards.

### Service contracts

Our policy is that notice periods for executive directors are of one year's duration and each of the executive directors' service contracts reflects this. These agreements provide for each of the directors to provide services to the Group on a full-time basis and 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 contract 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.

### The dates of the service contracts of each person who served as an executive director during the financial year are as follows:

Director	Date
Simon Segars	17 July 2014
Tim Score	1 March 2002
Mike Muller	31 January 1996

Service contracts for the executive directors and appointment letters for the Chairman and non-executive directors are available to view in the Corporate Governance section of our website at [www.arm.com](http://www.arm.com).

The term of appointment for non-executive directors is three years, which can be rolled forward for two further periods each of three years, which would be subject to annual review. Appointments are subject to termination on three months' notice. Fees paid to non-executive directors are reviewed annually with effect from 1 January.

Annual report on remuneration (Policy) continued...

### Remuneration Policy for executive directors

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<p><b>Base salary</b></p> <p>To provide an appropriately competitive level of base salary in order to enable the Group to recruit, retain and motivate executive directors of the calibre required to achieve the Group's business strategy and goal of sustained growth in corporate performance.</p>	<p>Base salaries are reviewed annually by the Committee and are paid monthly in cash. Increases generally apply from January in each year. In its annual review or on promotion, the Committee considers the following:</p> <ul style="list-style-type: none"> <li>▶ Pay levels at companies of similar size (by reference to market capitalisation and revenue) on a geographic and global basis.</li> <li>▶ External market conditions.</li> <li>▶ Pay and benefits elsewhere in the Group.</li> <li>▶ Individual performance, skills, experience and potential.</li> <li>▶ Corporate performance on environmental, social and corporate governance issues.</li> </ul> <p>Clawback does not apply to base salary (in accordance with contractual agreements).</p>	<p>Base salaries are set at an appropriate level for each role, taking account of the factors described in this table.</p> <p>Generally, salaries are no higher than market median, although higher salaries may be paid, if necessary, to recruit externally or to retain key executives.</p> <p>In normal circumstances base salary increases will be determined by reference to average increases for employees across the Group.</p> <p>Greater increases may be approved if there is a substantial change in a director's role or responsibilities or if the salary is significantly below the current market rate. In such circumstances, increases may be phased over a number of years and be conditional on performance.</p>	<p>None, although the overall performance of each executive director is considered by the Committee when reviewing base salaries.</p> <p>Maximum notice period is 12 months and pay in lieu of notice may be made at the discretion of the Group. This would include base salary and contractual benefits (pro-rated where applicable) and any untaken holiday.</p> <p>Fees for outplacement and legal advice may also be paid by the Group.</p>

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<p><b>Performance-related bonus</b> (in respect of 2014 financial year onwards)</p> <p>To incentivise executive directors to achieve performance objectives that are directly linked to the Group's short-term financial and strategic goals.</p>	<p>Bonus, if earned, is paid wholly in cash for 2014 onwards.</p> <p>Paid annually after the Preliminary Announcement for the prior year end.</p> <p>Bonus payments are not pensionable.</p> <p>Individual performance measures are focused on objectives that are specific to each executive director.</p> <p><b>Clawback:</b> provisions exist that require bonus to be forfeited (i.e. offset of bonus accruing in that year) or an equivalent value repaid in exceptional circumstances. These include material misstatement of published results and misconduct causing a material loss and would apply for two years from the payment of such bonus. The proportion of the bonus that would be repayable (and could be 100%) would depend on the extent to which the original bonus exceeds that which would have been paid if the results had been correctly stated, and also taking into account any negative impact of the re-statement.</p>	<p>Maximum bonus: 125% of base salary.</p> <p>Bonus payable at target: 85% of base salary.</p> <p>Target means the achievement of appropriate maximum targets in respect of both Normalised Operating Profit (NOP) and total revenue and prior to any personal performance adjustment.</p> <p>Bonus payable at threshold: 0% of base salary</p> <p>Threshold means the minimum level of performance before bonus starts to accrue.</p>	<p>Amount is subject to achievement of two performance targets and then adjusted for individual performance:</p> <ul style="list-style-type: none"> <li>▶ NOP (50% of target bonus).</li> <li>▶ Total revenue (50% of target bonus).</li> <li>▶ Individual performance measures specific to each executive director; which flex the amount of bonus by a factor of 0.75 to 1.25.</li> </ul> <p>Revenue and profit growth are regarded as the most appropriate short-term metrics for continuing the Group's performance.</p> <p>The Committee retains discretion to adjust bonus targets for any financial year to reflect intervening events including acquisitions or disposals.</p> <p>The numerical values of targets for any particular financial year will not be disclosed in advance or during that year as the Committee considers this information to be commercially sensitive. The actual targets will be disclosed in the following financial year:</p>
<p><b>Performance-related bonus</b> (in respect of years up to and including 2013)</p> <p>To incentivise executive directors to achieve performance objectives that are directly linked to the Group's short-term financial and strategic goals.</p> <p>Revenue and profit growth are regarded as the most appropriate short-term metrics for continuing the Group's performance.</p>	<p>Bonus earned in respect of 2013 was subject to the provisions of the DAB Plan. This was the final operation of the DAB Plan.</p> <p>Bonus was split 50% cash and 50% deferred shares based on NOP, total revenue and individual performance.</p> <p>There is compulsory deferral into shares for three years.</p> <p>Bonus matching applies to deferred shares in the range of 0.3 for 1 to 2 for 1 match subject to three-year EPS growth of CPI + 4% to CPI +12% per annum respectively.</p> <p>Deferred and any matching shares in relation to 2013 performance will be received in February 2017.</p> <p>Dividend shares are added at vesting.*</p> <p>Provisions exist that could result in immediate forfeiture of shares in the event of dismissal for gross misconduct, as determined by the Committee and at its discretion.</p>	<p>Maximum and target bonus opportunity of 150% and 100% of salary respectively.</p>	<p>The targets for 2013 bonus were:</p> <ul style="list-style-type: none"> <li>▶ 50% of target bonus was dependent on achieving a NOP target of £313.5 million** with 0% payout at £257.7 million rising in a linear way to 25% at £294.6 million.</li> <li>▶ The NOP portion of bonus can continue to accrue linearly above the target of £313.5 million on a straight-line basis, subject to the overall maximum of 150% of base salary.</li> <li>▶ 50% of bonus was dependent on achieving a US\$ revenue target of US\$1,096 million** with 0% payout at US\$913.2 million rising to 25% at \$1,030.1 million.</li> <li>▶ The revenue portion of bonus can continue to accrue above the target of US\$1,096 million so that for every 1% increase in revenue, bonus is increased by 2.5% of the target, subject to the overall maximum of 150% of base salary.</li> <li>▶ Bonus amount is then subject to an individual performance multiplier which flexes the payment by 0.75 to 1.25 again subject to the overall maximum of 150% of base salary.</li> </ul>



## Annual report on remuneration (Policy) continued...

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<p><b>Long-Term Incentive Plan 2013</b> (first operation in 2014)</p> <p>To incentivise executive directors to achieve performance objectives that are directly linked to the Group's long-term financial and strategic goals.</p> <p>To align executive directors' interests with those of the shareholders through the performance conditions and share retention obligations.</p>	<p>Annual conditional share awards are made at 187.5% of base salary with the ability for vesting of between 0% to 200% after three years dependent on achievement of the performance conditions, with a maximum of 375% of base salary.</p> <p>50% of the vested shares will be subject to additional holding periods with 25% released after four years and the remaining 25% released after five years. During these new holding periods, shares may not be sold even if the participant has left the Group.</p> <p>Dividend shares are added at vesting.</p> <p><b>Malus:</b> The Committee has discretion to reduce a share award (including to nil) prior to vesting where there are exceptional circumstances, which include a material misstatement in the Group's published results, misconduct by the executive director that is deemed to have caused or contributed to a material loss as a result of reckless, negligent or wilful actions, or inappropriate values or behaviour.</p> <p><b>Clawback:</b> The Committee has discretion to clawback shares and executive directors have an obligation under the Rules to transfer shares or pay over the proceeds of sale in exceptional circumstances (as described above). If sold at less than market value, the obligation is to pay market value at the date of disposal. Clawback would be less any tax and social security paid or due to be paid. The Committee has discretion to set the length of the clawback period, which would normally be two years from acquisition of the shares.</p>	<p>Maximum limit of 600% in exceptional circumstances as determined by the Committee.</p> <p>By way of example, exceptional circumstances could include the hiring of an exceptional senior executive director in a highly competitive market where we need to make an exceptional offer in order to recruit.</p>	<p>For the 2014 award vesting is based on:</p> <ul style="list-style-type: none"> <li>three-year Total Shareholder Return (TSR) growth relative to the FTSE All-World Technology Index (25%).</li> <li>three-year TSR growth relative to the FTSE 350 (25%).</li> <li>three-year normalised EPS growth (50%) with threshold at 15% annual growth (including CPI) and the upper performance target at 22% annual growth (including CPI).</li> </ul> <p>25% of the respective TSR elements vest for median performance with 100% vesting for upper quintile performance.</p> <p>Similarly 25% of the normalised EPS element vests at threshold performance with 100% vesting at the upper performance target with straight-line interpolation between these two points.</p> <p>The Committee will review the performance conditions for new awards annually.</p> <p>The Committee has discretion to waive or change a performance condition if anything happens that causes the Committee reasonably to consider it appropriate, provided that any changed performance condition will be no more difficult to satisfy than the original condition was intended to be at the time the award was granted.</p>
<p><b>Shareholding requirement</b></p> <p>To align executive directors' interests with those of shareholders over a longer time period, they are required to build a shareholding of 200% of base salary.</p>	<p>Until 200% of salary is achieved, no more than 50% of shares received through the DAB Plan and LTIP (after the automatic sale of shares to satisfy tax liabilities) can be disposed of.</p> <p>Unvested DAB Plan shares do not count towards the shareholding requirements.</p>		

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<p><b>Long-Term Incentive Plan</b> (in respect of years up to and including 2013)</p> <p>To incentivise executive directors to achieve performance objectives that are directly linked to the Group's long-term financial and strategic goals.</p> <p>To align executive directors' interests with those of the shareholders through the performance conditions and share retention obligations.</p>	<p>Annual conditional awards normally at 100% of salary with the potential for the award to vest at between 0% and 200% of salary for upper decile performance at the end of the three-year performance period.</p> <p>Dividend shares are added at vesting.</p>	<p>Maximum award limit of 400% in exceptional circumstances was never used.</p>	<p>Vesting is based on:</p> <ul style="list-style-type: none"> <li>three-year TSR growth relative to the FTSE All World Technology Index (50%).</li> <li>three-year TSR growth relative to the FTSE 350 (50%).</li> </ul> <p>Threshold vesting commencing at median ranking of TSR group (25% of respective TSR elements rising to 100% vesting for an upper decile ranking on a straight-line basis).</p> <p>The Committee has discretion to waive or change a performance condition in the event of circumstances which cause the Committee to reasonably consider that:</p> <ul style="list-style-type: none"> <li>(a) the amended Performance Condition would be a fairer measure of performance and would be no easier to satisfy; or</li> <li>(b) the Performance Condition should be waived.</li> </ul>
<p><b>Pension</b></p> <p>To provide pension contributions in line with market practice, which will enable directors to plan for retirement.</p>	<p>10% of base salary for executive directors and 11% for the Chief Executive Officer is paid either into the Group Personal Pension Plan or overseas equivalent, or as a cash allowance (subject to payroll deductions) for those in excess of the lifetime allowance applicable in the UK.</p>	<p>11% of base salary.</p>	<p>Not applicable.</p>

## Annual report on remuneration (Policy) continued...

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<b>Other benefits</b> To provide competitive benefits in line with market practice to enable the Group to recruit and retain high-calibre executive directors. To reward innovation and invention.	Other benefits are provided appropriate to the location of the executive director and include provision of a car or car and fuel allowance, long-term sickness and disability insurance, death in service benefit, and healthcare and travel insurance for the executive director and family. Executive directors may also receive patent bonuses in line with the scheme operated by the Group from time to time for patent applications and on grants of patents.	Reasonable market cost of providing benefits. The Committee reserves the discretion to provide such situation-specific benefits as may be required in the interests of the Group's business, such as relocation. Full details of the exercise of any such discretion would be provided to shareholders in the next Remuneration report.	Not applicable.
<b>Overseas benefits/ Relocation allowances</b> To provide competitive benefits in line with market practice to enable the Group to recruit and retain high-calibre executive directors and move them to alternative locations when required by the needs of the business.	Executives based in countries outside their home country receive other benefits appropriate to the country in which they are working. In the event that an executive director agrees to move from their home country temporarily, the relocation arrangements may include: Housing allowance or settlement of actual costs; Disturbance allowance to enable essential household purchases to be made; Cost of living and transportation allowance for the duration of the assignment; Flights home for executive and family; School fees for executive director's children; Cost of personal tax advice; Cost of visas for executive and family; Cost of transporting executive and family's personal effects; Legal and estate agents fees associated with properties in home and overseas locations.	Reasonable market cost of providing benefits for the duration of the term abroad.	Not applicable.

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<b>One-off recruitment cash/equity awards</b> <p>To provide an appropriately attractive package to persuade an external hire to accept an offer of employment and/or to buy out equity that would be lost on leaving previous employment.</p>	<p>An award of restricted stock units (RSUs) or a grant of options may be made under the Employee Equity Plan to a new recruit to compensate for equity awards foregone with previous employer and/or provide equity that vests in the three years prior to potential vesting of the first LTIP award.</p> <p>Alternatively, a cash payment or an additional LTIP award may be made to compensate.</p> <p>Payment may be on taking up appointment or to coincide with vesting dates under the previous employer's plan.</p> <p>Malus and clawback provisions would apply.</p>	<p>The maximum would be a sum equal to the value of equity foregone, taking account of performance conditions attached to the award, likelihood of vesting, and accelerated payment.</p>	<p>The Committee has discretion to determine appropriate performance conditions for any award of RSUs, any LTIP award, or any grant of options taking account of the circumstances of each individual case. Performance conditions would normally be applied on an equivalent basis to those applicable to awards made to other executive directors in the same calendar year. Performance conditions may, but would not necessarily be applied to any cash payment.</p>
<b>Other Contributory Equity Plans</b> <p>Executive directors are eligible to participate in the share plan applicable to the country where they work.</p> <p>These plans provide an opportunity for executive directors to voluntarily invest in the Group.</p>	<p>ARM currently operates a Save as You Earn Option Scheme in the UK (and some other countries) and an Employee Stock Purchase Plan in the US (and some other countries), which enables employees to buy shares at a discount of up to 20% of market value through regular monthly or fortnightly payroll deductions.</p>	<p>The maximum participation limits will not exceed those set by the relevant tax authorities from time to time.</p>	<p>Not applicable.</p>
<b>Fees for non-executive roles held outside the Group</b> <p>To provide executive directors with opportunities to widen their knowledge and experience of the operation of other company boards and committees, they are permitted to hold non-executive positions at other companies.</p>	<p>Executive directors are permitted to retain any fees paid and/or shares offered in connection with external non-executive roles that they undertake.</p>	<p>The amounts received are disclosed annually.</p> <p>Details are provided on page 51.</p>	<p>Not applicable.</p>

## Annual report on remuneration (Policy) continued...

<i>Component of remuneration package and how it supports business strategy</i>	<i>Operation and clawback</i>	<i>Maximum potential value</i>	<i>Performance conditions, targets assessment and areas of discretion</i>
<p><b>Non-executive directors' (NED) and Chairman's fees</b></p> <p>To attract and retain an appropriately experienced Chairman and independent non-executive directors of suitable calibre to fulfil a range of different roles including financial expert/ Audit Committee Chairman, Senior Independent Director and Committee Chairmen.</p> <p>To pay fees that reflect responsibilities and workload undertaken, and which are competitive with peer companies.</p>	<p>NED fees are proposed by the executive directors and approved by the Board as a whole. The Chairman's fee is proposed by the Committee and approved by the Board as a whole with the Chairman taking no part in the decision.</p> <p>NED appointments are terminable on three months' notice.</p> <p>Fees are reviewed on an annual basis and take account of fees paid for similar roles by peer companies.</p> <p>The NEDs and the Chairman are not eligible to receive bonuses, pension contributions and nor can they participate in the LTIP or other equity plans.</p> <p>The overall fees paid to non-executive directors will remain within the limit stated in our Articles of Association, currently £1.0 million, as approved at the 2014 AGM.</p>	<p>Fees are set at an appropriate level taking into account the factors outlined in this table.</p> <p>Additional fees are paid to the SID and Committee Chairmen.</p> <p>An additional fee is paid to NEDs based outside the UK who undertake long-haul travel to attend Board meetings in the UK, to reflect the additional time commitment.</p>	Not applicable.
<p><b>Legacy arrangements</b> (pre 27 June 2012)</p>	None.		

\* Dividend shares are additional shares added at vesting equal to the amount of dividends that would have been paid during the deferral period for the DAB Plan and LTIP.

\*\* Calculated at the Group budget exchange rate of £1:US\$1.60.

In the event of termination of an executive director's contract of employment, compensation would be based on salary and contractual benefits during the notice period and whether the departing director is deemed to be a good leaver under the rules of the Annual Bonus Plan, the 2013 LTIP, the former LTIP, and the former DAB Plan.

	<i>Contractual provisions/Plan Rules</i>	<i>Exit Payment Policy</i>
<b>Service contracts</b>	<p>Payment of contractual entitlements, including payment in lieu of notice in appropriate circumstances, where certainty and protection of restrictive covenants are in the best interests of the Group.</p> <p>Termination payments would take into account the particular circumstances relevant to each individual situation.</p>	<p>Maximum notice period is 12 months and pay in lieu of notice may be made at the discretion of the Group.</p> <p>This would include base salary and contractual benefits (pro-rated where applicable) and any untaken holiday.</p> <p>Fees for outplacement and legal advice may also be paid by the Group.</p>
<b>LTIP</b>	<p>For good leavers conditional awards under the LTIP would normally vest pro-rata to time served and the extent to which the performance conditions are satisfied at the date of termination of employment.</p> <p>For bad leavers, unvested share awards would lapse on termination of employment.</p>	<p>In relation to both the LTIP and Bonus Plan: in assessing whether an executive director is a good leaver in retirement circumstances, the executive director is required to confirm future intentions to the Committee (including that he or she will not accept a full-time executive role in a commercial organisation). If the Committee determines that the executive director is a good leaver and subject to satisfaction of performance targets, pro-rated vesting of entitlements under the old and new LTIPs and bonus plans would normally be approved.</p> <p>The holding periods described in the Remuneration Policy table would apply to any shares that vest under the LTIP.</p>
<b>Bonus Plans</b>	<p>There is no automatic entitlement to annual bonus. In the event of death or leaving as a result of disability or ill health, pro-rata bonus may be paid for the year of cessation.</p> <p>Bad leavers would not receive performance-related bonus awards in relation to the year of cessation.</p> <p>Clawback provisions exist that require bonus to be forfeited (i.e. offset of bonus accruing in that year) or an equivalent value repaid should it be necessary for the Group to re-state to a material extent the financial results on which the bonus was awarded within two years of the payment of such bonus. The proportion of the bonus that would be repayable (which could be 100%) would depend on the extent to which the original bonus exceeds that which would have been paid if the results had been correctly stated, also taking into account any negative impact of the re-statement.</p>	
<b>Former DAB Plan</b>	<p>Deferred shares under the former DAB Plan would vest on termination. Deferred shares can be forfeited in certain circumstances. Matching shares vest, to the extent the performance conditions are satisfied, for good leavers only.</p>	

The Directors' Remuneration Report was approved by a duly authorised Committee of the Board.

**Larry Hirst**

Chairman of the Remuneration Committee

17 February 2015



# Independent auditors' report to the members of ARM Holdings plc

## Report on the Group financial statements

### Our opinion

In our opinion, ARM Holdings plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

ARM Holdings plc's financial statements comprise:

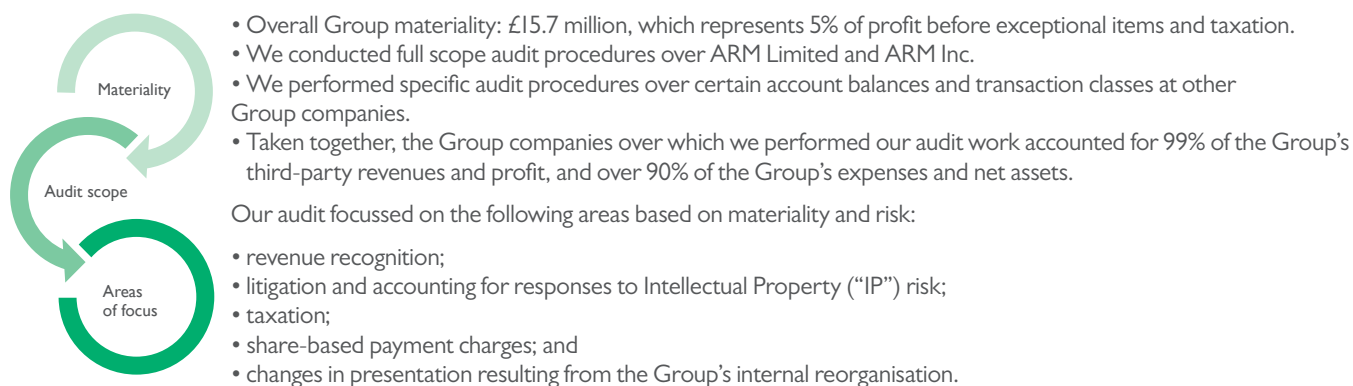
- the consolidated balance sheet as at 31 December 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

### Our audit approach

#### Overview



### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors have made subjective judgements, for example in respect of significant accounting estimates that involved applying management-determined assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Revenue recognition</b></p> <p>See note 1b to the financial statements and the Audit Committee report on page 19 for the directors' disclosures of the related accounting policies, judgements and estimates.</p> <p>The timing of licence revenue recognition (which makes up 45% of the Group's gross revenue of £795.2 million) is inherently complex.</p> <p>Recognition of licence revenue involves a number of significant judgements by the directors, including:</p> <ul style="list-style-type: none"> <li>▶ determining whether contracts contain deliverables which should be separated for revenue recognition purposes and the most appropriate revenue recognition methodology for each of those elements;</li> <li>▶ determining the allocation of consideration on a fair value basis between components of multi-element contracts as noted above (where this can be supported based on evidence of stand-alone selling prices) and whether the consideration is deemed probable where a contract incorporates extended payment terms; and</li> <li>▶ assessing the degree of completion of contracts which are accounted for on a "percentage of completion" basis.</li> </ul> <p>As described in note 1b, royalty revenues earned on sales by the Group's customers of products containing ARM technology are recognised when the Group receives notification from the customer of product sales, which is typically in the quarter following shipment.</p> <p>In addition, ISAs (UK &amp; Ireland) presume there is a risk of fraud in revenue recognition for every audit conducted under these auditing standards because of the pressure management may feel to achieve the planned results.</p>	<p>We evaluated the relevant IT systems and tested the internal controls that the Group uses to ensure the completeness, accuracy and timing of revenue recognised, including controls over the degree of completion of revenue contracts at year-end. <b>We found the operation of these controls to be effective, which provided us with audit evidence that licence revenue had been recorded accurately and in the correct period, in accordance with the Group's accounting policies. Because significant judgements are made in recognising revenue, we performed further testing of revenue contracts.</b></p> <p>We read a sample of licence contracts selected on a high value basis and assessed whether the revenue recognition methodology was consistent with accounting standards and had been applied consistently. Where a contract contained multiple elements, we considered management's judgements as to whether there were elements that should be accounted for separately, and, in such cases, challenged the judgements made in the allocation of the consideration to each element.</p> <p>We evaluated and challenged the significant judgements (including assumptions used) and estimates made by management in applying the Group's policy to specific contracts and separable elements of contracts, and we obtained evidence to support them, including details of contractual agreements, delivery records, time records/sheets, cash receipts and project plans. <b>We noted no instances of inappropriate revenue recognition arising in our testing.</b></p> <p>For the contracts selected we inspected original signed contracts, re-performed management's calculations and agreed the revenue recognised to the underlying accounting records. We did not identify any material exceptions in our testing.</p> <p>We obtained management's calculations of the degree of completion of contracts at year-end. We agreed a sample of source data used in management's calculations to supporting evidence, and evaluated the judgements applied. We also considered the historical outcome of judgements made in prior periods. <b>We did not identify any material exceptions in our testing.</b></p> <p>We tested royalty revenues by agreeing a sample of amounts recognised to customer notifications and cash receipts. <b>No material exceptions were noted from our testing.</b></p> <p>In response to the presumed risk of fraud, where revenue was recorded through journal entries we tested a sample of journals to establish whether there were any unusual items. <b>No such items were identified from our testing.</b></p>
<p><b>Litigation risk</b></p> <p>See note 1b to the financial statements and the Audit Committee report on page 19 for the directors' disclosures of the related accounting policies, judgements and estimates and note 24 for further information.</p> <p>The Group has exposure to patent infringement disputes, sometimes directly, but in most cases through indemnity provisions in its contracts with customers.</p> <p>Judgements are made in determining the extent and amount of any provisions required or disclosures made for contingent liabilities.</p>	<p>We discussed litigation with the Group's in-house legal counsel and obtained confirmations from external legal advisers. We assessed the adequacy of provisions recognised and disclosures made in the Group financial statements. <b>We found that the determination of whether provision was required and the amount of any such provision were consistent with the legal advice and management's assessment of potential settlement costs, based, where appropriate, on latest information including the extent to which each matter has evolved.</b></p> <p>Where indemnification costs with a licensee and litigation settlements through purchase of a licence were expensed during the year, we vouched these to evidence of payment and examined the associated settlement contracts. <b>We did not identify any material exceptions.</b></p>

Independent auditors' report to the members of ARM Holdings plc continued...

Area of focus	How our audit addressed the area of focus
<p><b>Taxation</b></p> <p>See note 1b to the financial statements and the Audit Committee report on page 19 for the directors' disclosures of the related accounting policies, judgements and estimates and note 7 for specific taxation disclosures.</p> <p>The calculation of the Group's total tax charge of £61.1 million is subject to a number of complexities, in particular because the Group operates in several jurisdictions. Tax provisioning in relation to ongoing enquiries with local tax authorities is a specific area of judgement. In addition, the estimated impact on the Group's UK deferred tax balances of the UK patent box regime and the level of provisioning in relation to identified tax risks is judgemental.</p>	<p>Using specialised tax knowledge in relevant jurisdictions, we tested the Group's tax computations and assessed and challenged the judgements made considering their consistency with applicable legislation and practice, including evaluating management's assessment of the likely resolution of uncertain tax positions. We tested the calculation of the impact of the UK patent box regime on the Group's effective current and deferred tax rates, evaluating the judgements made in determining the level of current and future taxable profit within the scope of this regime, and checked the application of the methodology to applicable legislation.</p> <p><b>We found no material exceptions in our testing.</b></p> <p>We read the Group's correspondence with local tax authorities in the UK and US during the year and assessed the implications for tax provisioning. <b>The evidence that we obtained from reading this correspondence supported the directors' decisions regarding the level of tax provisioning.</b></p>
<p><b>Share-based payment charges</b></p> <p>See note 1b to the financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 21 for more information.</p> <p>The calculation of the Group's share-based payment expense of £68.5 million is subject to a number of management determined assumptions in estimating the fair value of share awards granted in the year and the number of awards that are expected to vest. The Monte-Carlo option pricing model used to fair value the LTIP awards granted in 2014 is complex and requires technical expertise in choosing appropriate assumptions such as, volatility and the calculation of the average correlation for the FTSE 350 and FTSE All World Technology Index. There is a risk that assumptions used may be significantly under or over stated, which could materially impact the Group's share-based payment expense.</p>	<p>We tested the operating effectiveness of controls in place over the calculation and recording of the share-based payment expense. We substantively tested the Group's share-based payment calculations and the associated tax computations and challenged management's assumptions in estimating the fair value of awards granted during the year and the number of awards that are expected to vest by considering the outturn of historical estimates made by management and market data. We traced inputs to the fair value calculation to underlying grant documents, option scheme rules and comparable market data. <b>We did not identify any material exceptions in our testing.</b></p> <p>We focussed on and challenged the assumptions used in the Monte-Carlo option pricing model for the LTIP awards granted in 2014 by comparing them to external market data and other third-party evidence. <b>We found that the assumptions used in the Monte-Carlo option pricing model were comparable with market data and other third-party evidence.</b></p>

Area of focus	How our audit addressed the area of focus
<p><b>Changes in presentation resulting from the Group's internal reorganisation</b></p> <p>See note 1b to the financial statements and the Audit Committee report on page 19 for the directors' disclosures of the related accounting policies and reporting impact of the Group's internal reorganisation and note 13 for more information on goodwill.</p> <p>From 1 January 2014, the Group reorganised its internal operational structure as explained in note 1b. Consequently, the directors have re-evaluated the Group's internal reporting systems in order to identify the Chief Operating Decision Maker ("CODM") of the Group following the internal reorganisation, and therefore the operating segments of the Group based on the regular reporting reviewed by the CODM that is used to make decisions about the allocation of resources within the Group and assess its performance. As described in note 1b, the directors have determined that with effect from the second half of 2014 the Group now has a single reportable operating segment.</p> <p>The directors have further re-evaluated the Group's cash-generating units ("CGUs") in light of the reorganisation. The directors have performed their annual goodwill impairment review at the operating segment level. As a result, we focussed on the risk that:</p> <ul style="list-style-type: none"> <li>▶ the directors' evaluation of the Group's operating segments is inconsistent with the regular reporting reviewed by the CODM and used to make decisions about the allocation of resources within the Group and assess its performance, and therefore that there could potentially be more than one operating segment requiring disclosure; and</li> <li>▶ the directors' evaluation of the Group's CGUs did not identify the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, and therefore the annual goodwill impairment test was not performed to a sufficiently detailed level.</li> </ul> <p>The performance of the annual goodwill impairment review at the operating segment level means that there is substantial headroom in the annual impairment test to support the Group's goodwill balance of £567.0 million. The level of judgement in the annual goodwill impairment test is significantly reduced as compared to 2013, when the test was performed using three CGUs and allocations of cash flows performed in determining the value in use of the PIPD CGU.</p>	<p>We challenged the directors' evaluation of the Group's operating segments and CGUs by performing the following:</p> <ul style="list-style-type: none"> <li>▶ The Group has identified the CEO and Executive Committee to be the CODM. We inspected minutes of meetings and evaluated the Group's internal reporting structure in assessing whether these evidenced that the CEO and Executive Committee were responsible for making decisions about the allocation of resources within the Group and in reviewing both financial and non-financial performance;</li> <li>▶ We inspected minutes of meetings involving the CODM and the regular financial reporting provided to the CODM in order to assess whether this identified more than one reportable operating segment of the Group; and</li> <li>▶ We evaluated the detailed internal financial reporting to assess whether there are any identifiable groups of assets generating cash inflows largely independently of the cash inflows from other assets or groups of assets, and thus whether there potentially exists a CGU which is smaller than the operating segment level.</li> </ul> <p><b>The evidence that we examined supported the directors' conclusion that there is one reportable operating segment and that there is no CGU below operating segment level, with appropriate disclosure given of the changes in presentation that result from this.</b></p> <p>We also examined the directors' annual impairment assessment at the operating segment level, and challenged management's assumptions relating to the discount rate used, the achievability of forecast revenues and profits, and the terminal growth rate, as disclosed in note 13, that have been made in calculating the value in use of the Group. <b>We found that there was sufficient headroom in the calculations for it not to be sensitive to reasonable changes in the assumptions.</b></p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 31 companies, comprising the Group's operating businesses and head office entities.

Our Group audit focused on the two largest companies of the Group (ARM Limited and ARM Inc.) which contribute 99% of the Group's third-party revenues and profits, and more than 80% of the Group's expenses and net assets. We performed full scope audit procedures at ARM Limited and ARM Inc. We also performed specified audit procedures over certain account balances and transaction classes at other Group companies, representing approximately 9% of the Group's expenses.

All audit work in respect of the Group financial statements, including that on the Group consolidation, disclosures in the financial statements and all the areas of focus, was performed by the Group engagement team (including visits to ARM Inc.'s US-based operations) with the exception of taxation, where assistance was received from other PwC network firms in respect of judgements made in respect of tax charges in overseas jurisdictions.

Independent auditors' report to the members of ARM Holdings plc continued...

### Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall Group materiality</b>	£15.7 million (2013: £13.2 million).
<b>How we determined it</b>	5% of profit before exceptional items and taxation.
<b>Rationale for benchmark applied</b>	This is, in our view, the most relevant measure of the performance of the Group, and provides us with a consistent year-on-year basis for determining materiality by eliminating the non-recurring disproportionate impact of exceptional items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (2013: £0.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 29, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

### Other required reporting

#### Consistency of other information

#### Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ISAs (UK & Ireland) reporting

*Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:*

<ul style="list-style-type: none"> <li>▶ information in the Annual Report is: <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>– is otherwise misleading.</li> </ul> </li> </ul>	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"> <li>▶ the statement given by the directors on page 20, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report arising from this responsibility.
<ul style="list-style-type: none"> <li>▶ the section of the Annual Report on page 19, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>	We have no exceptions to report arising from this responsibility.

### *Adequacy of information and explanations received*

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### *Directors' remuneration*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### *Corporate governance statement*

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## **Responsibilities for the financial statements and the audit**

### *Our responsibilities and those of the directors*

As explained more fully in the Statement of directors' responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### *What an audit of financial statements involves*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### *Other matter*

We have reported separately on the Company financial statements of ARM Holdings plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Charles Bowman (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
17 February 2015

# Consolidated income statement

For the year ended 31 December	Note	2014 £m	2013 £m
<b>Revenues</b>	2	<b>795.2</b>	<b>714.6</b>
Cost of revenues		(37.8)	(39.3)
<b>Gross profit</b>		<b>757.4</b>	<b>675.3</b>
<b>Operating expenses</b>			
Research and development		(224.2)	(202.9)
Sales and marketing		(93.2)	(89.4)
General and administrative		(131.0)	(128.2)
<b>Total operating expenses before exceptional items</b>		<b>(448.4)</b>	<b>(420.5)</b>
<b>Exceptional items</b>	6	—	(101.3)
<b>Total operating expenses after exceptional items</b>		<b>(448.4)</b>	<b>(521.8)</b>
<b>Profit from operations</b>		<b>309.0</b>	<b>153.5</b>
Investment income		11.3	13.3
Interest payable and similar charges		(0.3)	(0.2)
Share of results in joint venture	27	(3.5)	(4.0)
<b>Profit before tax</b>	5	<b>316.5</b>	<b>162.6</b>
Tax (including £nil in respect of exceptional items (2013: £8.6 million))	7	(61.1)	(57.8)
<b>Profit for the year</b>		<b>255.4</b>	<b>104.8</b>
<b>Earnings per share</b>			
Basic and diluted earnings		<b>255.4</b>	<b>104.8</b>
<b>Number of shares (millions)</b>			
Basic weighted average number of shares		1,406.2	1,396.4
Effect of dilutive securities: Employee incentive schemes		14.9	15.4
<b>Diluted weighted average number of shares</b>		<b>1,421.1</b>	<b>1,411.8</b>
Basic EPS		18.2p	7.5p
Diluted EPS		18.0p	7.4p

All the profit for the year is attributable to the owners of the Company and all activities relate to continuing operations. The Company has opted to present its own accounts under UK GAAP as shown on pages 117 to 124.

Details of dividends paid and proposed are in notes 8 and 26 of the financial statements respectively.

# Consolidated statement of comprehensive income

For the year ended 31 December	Note	2014 £m	2013 £m
<b>Profit for the year</b>		<b>255.4</b>	<b>104.8</b>
Other comprehensive income/(loss):			
Unrealised holding gain on available-for-sale financial assets (net of tax of £1.1 million (2013: £nil))*	11	4.3	—
Currency translation adjustment*		34.6	(17.9)
<b>Other comprehensive income/(loss) for the year</b>		<b>38.9</b>	<b>(17.9)</b>
<b>Total comprehensive income for the year</b>		<b>294.3</b>	<b>86.9</b>

\* These items may be reclassified to the income statement if certain conditions are met.

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



# Consolidated balance sheet

At 31 December	Note	2014 £m	2013 £m
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	17	54.1	43.8
Short-term deposits and similar instruments	17	620.8	544.1
Fair value of currency exchange contracts	17	–	5.1
Embedded derivatives	17	2.6	–
Accounts receivable	9	138.6	136.2
Available-for-sale financial assets	11, 17	–	1.2
Prepaid expenses and other assets	10	43.2	39.8
Current tax assets		8.9	6.9
Inventories		2.7	3.0
<b>Total current assets</b>		<b>870.9</b>	<b>780.1</b>
Non-current assets:			
Long-term deposits and similar instruments	17	191.4	125.6
Loans and receivables	17	3.0	3.0
Available-for-sale financial assets	11, 17	23.7	13.9
Investment in joint venture	27	3.0	6.5
Prepaid expenses and other assets	10	1.7	1.6
Property, plant and equipment	12	43.4	33.6
Goodwill	13	567.0	525.9
Other intangible assets	14	77.2	82.9
Deferred tax assets	7	55.9	65.3
<b>Total non-current assets</b>		<b>966.3</b>	<b>858.3</b>
<b>Total assets</b>		<b>1,837.2</b>	<b>1,638.4</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	17	11.7	7.0
Fair value of currency exchange contracts	17	4.8	–
Embedded derivatives	17	–	7.0
Accrued and other liabilities	15	80.6	88.1
Finance lease liabilities	16	3.9	2.7
Current tax liabilities		31.9	18.8
Deferred revenue		127.4	156.7
<b>Total current liabilities</b>		<b>260.3</b>	<b>280.3</b>
Non-current liabilities:			
Accrued and other liabilities	15	–	2.6
Finance lease liabilities	16	2.6	1.5
Deferred tax liabilities	7	0.4	0.1
Deferred revenue		45.6	42.5
<b>Total non-current liabilities</b>		<b>48.6</b>	<b>46.7</b>
<b>Total liabilities</b>		<b>308.9</b>	<b>327.0</b>
<b>Net assets</b>		<b>1,528.3</b>	<b>1,311.4</b>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	18	0.7	0.7
Share premium account		24.9	18.1
Capital reserve		354.3	354.3
Share option reserve		61.4	61.4
Retained earnings		991.8	820.6
Revaluation reserve		4.3	–
Cumulative translation adjustment		90.9	56.3
<b>Total equity</b>		<b>1,528.3</b>	<b>1,311.4</b>

The accompanying notes are an integral part of the financial statements. The financial statements on pages 68 to 116 were approved by the Board of directors on 17 February 2015 and were signed on its behalf by:

# Consolidated cash flow statement

For the year ended 31 December	Note	2014 £m	2013 £m
Profit before tax		316.5	162.6
Investment income (net of interest payable and similar charges)		(11.0)	(13.1)
Share of results in joint venture		3.5	4.0
<b>Profit from operations</b>		<b>309.0</b>	<b>153.5</b>
<b>Adjustments for:</b>			
Depreciation and amortisation of property, plant and equipment and intangible assets		35.6	28.0
Compensation charge in respect of share-based payments		68.5	59.2
Provision for impairment of available-for-sale financial assets (including non-cash exceptional item of £nil (2013: £59.5 million))		1.0	66.3
Profit on disposal of available-for-sale financial assets		(0.3)	(3.3)
Loss on disposal of property, plant and equipment		0.1	0.6
Provision for doubtful debts		0.3	4.0
Non-cash foreign currency losses/(gains)		3.4	(3.6)
Movement in fair value of currency exchange contracts		9.9	(3.7)
Movement in fair value of embedded derivatives		(9.6)	4.4
<b>Changes in working capital</b>			
Accounts receivable		(4.0)	(19.8)
Inventories		0.3	(0.7)
Prepaid expenses and other assets		(9.9)	(8.8)
Accounts payable		4.5	1.1
Deferred revenue		(24.8)	53.1
Accrued and other liabilities		(11.6)	8.3
Cash generated by operations before tax		372.4	338.6
Income taxes paid		(30.8)	(23.3)
<b>Net cash from operating activities</b>		<b>341.6</b>	<b>315.3</b>
<b>Investing activities</b>			
Interest received (net of interest paid of £0.3 million (2013: £0.2 million))		13.3	13.2
Purchases of property, plant and equipment		(20.4)	(13.5)
Purchases of other intangible assets		(10.0)	(31.8)
Purchases of available-for-sale financial assets	11	(5.0)	(8.9)
Proceeds on disposal of available-for-sale financial assets		2.2	5.5
Purchase of short- and long-term deposits and similar instruments, net		(145.1)	(188.5)
Purchase of subsidiaries, net of cash and borrowings acquired	20	(12.8)	(21.1)
Investment in joint venture	27	—	(3.7)
Provision of long-term loan		—	(0.7)
<b>Net cash used in investing activities</b>		<b>(177.8)</b>	<b>(249.5)</b>
<b>Financing activities</b>			
Proceeds received on issuance of shares	18	6.8	5.9
Purchase of own shares	19	(66.9)	—
Dividends paid to shareholders	8	(86.1)	(68.9)
Repayment of borrowings		(1.2)	(1.1)
Repayment of finance lease liabilities		(6.4)	(3.3)
<b>Net cash used in financing activities</b>		<b>(153.8)</b>	<b>(67.4)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10.0</b>	<b>(1.6)</b>
Cash and cash equivalents at beginning of the year		43.8	46.3
Effect of foreign exchange rate changes		0.3	(0.9)
<b>Cash and cash equivalents at end of the year</b>		<b>54.1</b>	<b>43.8</b>

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

# Consolidated statement of changes in shareholders' equity

For the year ended 31 December	Attributable to the owners of the Company							Total £m
	Share capital £m	Share premium account £m	Capital reserve* £m	Share option reserve** £m	Retained earnings £m	Revaluation reserve*** £m	Cumulative translation adjustment £m	
<b>Balance at 1 January 2013</b>	<b>0.7</b>	<b>12.2</b>	<b>354.3</b>	<b>61.4</b>	<b>703.3</b>	—	<b>74.2</b>	<b>1,206.1</b>
Profit for the year	—	—	—	—	104.8	—	—	104.8
Other comprehensive loss:								
Currency translation adjustment	—	—	—	—	—	—	(17.9)	(17.9)
<b>Total comprehensive income/(loss) for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>104.8</b>	<b>—</b>	<b>(17.9)</b>	<b>86.9</b>
Shares issued on exercise of share options and awards (note 18)	—	5.9	—	—	—	—	—	5.9
Dividends (note 8)	—	—	—	—	(68.9)	—	—	(68.9)
Credit in respect of employee share schemes	—	—	—	—	59.2	—	—	59.2
Movement on tax arising on share options and awards	—	—	—	—	22.2	—	—	22.2
	—	5.9	—	—	12.5	—	—	18.4
<b>Balance at 31 December 2013</b>	<b>0.7</b>	<b>18.1</b>	<b>354.3</b>	<b>61.4</b>	<b>820.6</b>	<b>—</b>	<b>56.3</b>	<b>1,311.4</b>
Profit for the year	—	—	—	—	255.4	—	—	255.4
Other comprehensive income:								
Unrealised holding gain on available-for-sale financial assets (net of tax of £1.1 million)	—	—	—	—	—	4.3	—	4.3
Currency translation adjustment	—	—	—	—	—	—	34.6	34.6
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>255.4</b>	<b>4.3</b>	<b>34.6</b>	<b>294.3</b>
Shares issued on exercise of share options and awards (note 18)	—	6.8	—	—	—	—	—	6.8
Dividends (note 8)	—	—	—	—	(86.1)	—	—	(86.1)
Purchase of own shares (note 19)	—	—	—	—	(66.9)	—	—	(66.9)
Credit in respect of employee share schemes	—	—	—	—	68.5	—	—	68.5
Movement on tax arising on share options and awards	—	—	—	—	0.3	—	—	0.3
	—	6.8	—	—	(84.2)	—	—	(77.4)
<b>Balance at 31 December 2014</b>	<b>0.7</b>	<b>24.9</b>	<b>354.3</b>	<b>61.4</b>	<b>991.8</b>	<b>4.3</b>	<b>90.9</b>	<b>1,528.3</b>

\* Capital reserve. In 2004, the premium on the shares issued in part consideration for the acquisition of Artisan Components Inc. was credited to reserves on consolidation in accordance with Section 131 of the Companies Act 1985. The reserve has been classified as a capital reserve to reflect the nature of the original credit to equity arising on acquisition.

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

\*\*\* Revaluation reserve. The Company includes on its balance sheet equity investments that are not publicly traded, which are classified as available-for-sale financial assets. These are carried at fair value. Unrealised holding gains or losses on such investments are included, net of related taxes, within the revaluation reserve (except where there is evidence of permanent impairment, in which case losses would be recognised within the income statement). Any unrealised gains within this reserve are undistributable.

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

# Notes to the financial statements

## I The Group and a summary of its significant accounting policies and financial risk management

### Ia General information about the Group

#### *The business of the Group*

ARM Holdings plc and its subsidiary companies (“ARM” or “the Group”) design microprocessors, physical IP and related technology and software, and sell development tools, to enhance the performance, cost-effectiveness and energy-efficiency of high-volume embedded microprocessor applications.

The Group licenses and sells its technology and products to leading international electronics companies, which in turn manufacture, market and sell microcontrollers, application-specific integrated circuits (ASICs) and application-specific standard processors (ASSPs) based on ARM’s technology to systems companies for incorporation into a wide variety of end products.

By creating a network of Partners, and working with them to best utilise ARM’s technology, the Group is establishing its processor architecture and physical IP for use in many high-volume embedded microprocessor applications, including mobile phones, tablets, digital televisions and PC peripherals, enterprise networking and servers, and smart cards and microcontrollers.

The Group also licenses and sells development tools direct to systems companies and provides support services to its licensees, systems companies and other systems designers.

The Group’s principal geographic markets are Europe, the US and Asia Pacific.

#### *Incorporation and history*

ARM is a public limited company incorporated and domiciled under the laws of England and Wales. The registered office of the Company is 110 Fulbourn Road, Cambridge, CB1 9NJ, UK.

The Company was formed on 16 October 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 10 March 1998, when its name was changed to ARM Holdings plc. Its initial public offering was on 17 April 1998.

Group undertakings include ARM Limited (incorporated in the UK), Geomerics Limited (incorporated in the UK), ARM France SAS (incorporated in France), ARM Germany GmbH (incorporated in Germany), ARM Norway AS (incorporated in Norway), ARM Sweden AB (incorporated in Sweden), ARM Finland Oy (incorporated in Finland), ARM Ireland Limited (incorporated in Republic of Ireland), ARM Hungary KFT (incorporated in Hungary), ARM Inc. (incorporated in the US), ARM Electronic Technology (Shanghai) Co. Limited (incorporated in PR China), ARM KK (incorporated in Japan), ARM Korea Limited (incorporated in South Korea), ARM Taiwan Limited (incorporated in Taiwan), and ARM Embedded Technologies Pvt. Limited (incorporated in India).

### Ib Summary of significant accounting policies

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

#### *Basis of preparation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention as modified by: the revaluation to fair value of available-for-sale (AFS) financial assets; financial assets and liabilities at fair value through the income statement (including embedded derivatives and derivative instruments).

## 1b Summary of significant accounting policies continued

### *Critical accounting estimates and judgements*

The preparation of financial statements in accordance with IFRS requires the directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *Segmental reporting*

The Group's internal operational structure was re-organised on 1 January 2014, to create an organisation that is more scalable and more accountable, and that offers a more integrated product portfolio. As at 31 December 2014, the Group's internal organisation and management structure reflect this change and this is the primary way in which the Chief Operating Decision Maker (CODM) is provided with financial information. The CODM assesses performance and allocates resources based on consolidated results of operations. The directors believe that the CODM is the Chief Executive Officer and the Executive Committee of the Group. At 30 June 2014, the changes had not been fully reflected in the Group's internal reporting systems and therefore the interim results were issued under the previous structure. The reporting systems were fully updated for the re-organisation in the second half of 2014. As a result, the Group now has one reportable segment.

### *Impairment of goodwill*

The Group tests goodwill for impairment at least annually. This requires an estimation of the value-in-use of the assets to which goodwill is allocated. As discussed in detail in note 13, estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present values of those cash flows. The discount rate is based on an estimate of the Group's weighted average cost of capital. The Group uses a post-tax discount rate of 10% (2013: 10%) (pre-tax discount rate of approximately 11% (2013: 11%)). The Group now reviews the carrying value of its assets including goodwill at the operating segment level.

### *Revenue recognition*

The Group makes significant estimates in applying its revenue recognition policies. In particular, as discussed in detail in the revenue recognition policy on page 75, estimates are made in relation to the use of the percentage-of-completion accounting method, which requires that the extent of progress toward completion of contracts can be anticipated with reasonable certainty. The use of the percentage-of-completion method is itself based on the assumption that, at the outset of licence agreements, there is an insignificant risk that customer acceptance is not obtained. The Group also makes assessments, based on prior experience, of the extent to which future milestone receipts represent a probable future economic benefit to the Group. In addition, when allocating revenue to various components of arrangements involving several components, it is assumed that the fair value of each element can be estimated reliably. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the revenue recognition policy affect the amounts reported in the financial statements. If different assumptions were used, it is possible that different amounts would be reported in the financial statements.

### *Provisions for income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Provisions are calculated based upon advice received from tax advisors and relevant correspondence received from tax authorities. Provisions are re-assessed at each period end date based upon any relevant new information received. Where the final tax outcome of these matters is different from the amounts recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

# Notes to the financial statements continued

## 1b Summary of significant accounting policies continued

### *Legal settlements and other contingencies*

Determining the amount to be accrued for legal settlements requires the directors to estimate the committed future legal and settlement fees the Group is expecting to incur, either where suits are filed against the Group for infringement of patents, or where the Group may be required to indemnify a licensee. The directors assess the extent of any potential infringement based on legal advice and written opinions received from external counsel and then estimate the level of accrual required.

Contingent consideration for an acquisition is recognised at fair value as part of the purchase consideration if the contingent conditions are expected to be satisfied. This requires the directors to estimate the acquiree's future financial performance, typically more than one year post acquisition.

### *Participation in trust to acquire patent rights*

During 2013, the Group participated in a consortium, via a trust, to acquire certain patent rights and has made various judgements regarding these transactions.

The directors believe that the Group does not control or have significant influence over the trust since, amongst other factors it does not have voting rights on the board or significant influence over the relevant activities of the trust. The results of the trust have therefore not been consolidated or equity accounted in the Group financial statements. The Group determined that the participation in the consortium conferred on the Group two separate rights: an intangible asset, conferring the right to use the assets in the Group's own business, and an AFS financial asset conferring the right to certain potential future revenue streams arising from the licensing activities of the trust. The amount expected to be recovered through this licensing programme was estimated by the Group in conjunction with the management of the trust, which has considerable experience of managing the assets of similar trusts.

The Group assesses its intangible assets for impairment at each reporting date and has reviewed the valuation of the patent rights acquired in this transaction. Given the design freedom that these rights provide and the size of the future opportunity afforded, the directors have concluded that no impairment of the patent rights is required.

In Q4 2013, the trust made a strategic decision not to pursue a licensing programme and the portfolio was instead put up for sale by auction. The Group acquired the patents in January 2014 for \$4.0 million (£2.4 million), which have been accounted for as an additional intangible asset. The auction process means that there are no further potential cash flows in relation to the AFS financial asset and at the end of 2013, the asset was therefore impaired down to the value of the Group's share of the auction proceeds, resulting in a non-cash exceptional charge of \$98.5 million (£59.5 million).

### *Provision for impairment of trade receivables*

The Group assesses trade receivables for impairment which requires the directors to estimate the likelihood of payment forfeiture by customers.

### *New standards, amendments and interpretations*

#### *New and amended standards adopted by the Group*

There are no new or amended standards adopted by the Group in the year which have had a material impact on the Group.

## 1b Summary of significant accounting policies continued

### *Standards, amendments and interpretations that are not yet effective and have not been early adopted*

**IFRS 9 “Financial instruments”** addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit and loss with the irrevocable option at inception to present changes in fair value in OCI but not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit and loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and the hedging instrument and for the “hedged ratio” to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The Group is currently assessing IFRS 9’s full impact.

**IFRS 15 “Revenue recognition”** deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to EU adoption. The Group is currently assessing the impact of IFRS 15.

### *Revenue recognition*

The Group follows the principles of IAS 18 “Revenue”, in determining appropriate revenue recognition policies. In principle, therefore, revenue associated with the sale of goods is recognised when all of the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group.
- The costs incurred or to be incurred in respect of the sale can be measured reliably.

Revenue associated with the rendering of services is recognised when all of the following conditions have been satisfied:

- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group.
- The stage of completion of the transaction at the end of the reporting period can be measured reliably.
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is shown net of value added tax, returns, rebates and discounts, and after eliminating sales within the Group.

Revenue comprises the value of sales of licences to ARM technology, royalties arising from the resulting sale of licensees’ ARM technology-based products, revenues from support, maintenance and training and the sale of development boards and software toolkits.

### *Licence revenues:*

Revenue from standard licence products that are not modified to meet the specific requirements of each customer is recognised when all of the conditions relevant to revenue associated with the sale of goods have been satisfied:

- The significant risks and rewards of ownership are transferred when a licence arrangement has been agreed and the IP has been delivered to the customer.
- Continuing managerial involvement and effective control over licensed IP is relinquished at the point at which the IP is delivered to the customer.
- The amount of revenue can be measured reliably; any consideration due under the licensing arrangement that is not deemed to be reliably measurable is deferred until it can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group; any economic benefits of the transaction that are deemed unlikely to flow to the Group are deferred until it becomes probable that they will flow to the Group.



# Notes to the financial statements continued

## 1b Summary of significant accounting policies continued

### *Revenue recognition continued*

The majority of the Group's revenues come from the licensing of IP and subsequent receipt of royalty revenues and there are therefore very few direct costs associated with the sale of goods; where there are direct costs of revenues, these are measured with reference to the purchasing agreements in place with the Group's suppliers.

Many licence agreements are for products which are designed to meet the specific requirements of each customer. Revenue from the sale of such licences is recognised on a percentage-of-completion basis over the period from signing of the licence to completion of ARM's contractual obligations. Under the percentage-of-completion method, provisions for estimated losses on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined. The percentage-of-completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement, which approximates to the extent of performance. After project completion, provisions for additional post-delivery warranty work are recognised in research and development expenses.

Where invoicing milestones in licence arrangements are such that the receipts fall due significantly outside the period over which the customisation is expected to be performed or significantly outside its normal payment terms for standard licence arrangements, the Group evaluates whether it is probable that economic benefits associated with these milestones will flow to the Group and therefore whether these receipts should initially be included in the arrangement consideration.

In particular, it considers:

- whether there is sufficient certainty that the invoice will be raised in the expected timeframe, particularly where the invoicing milestone is in some way dependent on customer activity;
- whether it has sufficient evidence that the customer considers that the Group's contractual obligations have been, or will be, fulfilled;
- whether there is sufficient certainty that only those costs expected to be incurred will indeed be incurred before the customer will accept that a future invoice may be raised;
- the extent to which previous experience with similar product groups and similar customers supports the conclusions reached.

Where the Group considers that there is insufficient evidence that it is probable that the economic benefits associated with such future milestones will flow to the Group, taking into account these criteria, such milestones are excluded from the arrangement consideration until there is sufficient evidence that it is probable that the economic benefits associated with the transaction will flow to the Group. The Group does not discount future invoicing milestones, as the effect of so doing would be immaterial.

Where agreements involve several components, the entire fee from such arrangements is allocated to each of the individual components based on each component's fair value, where fair value is the selling price of an item when sold separately. Where a component in a multiple-component agreement has not previously been sold separately, the assessment of fair value for that component is based on other factors including, but not limited to, the price charged when it was sold alongside other items and the book price of the component relative to the book prices of the other components in the agreement. If fair value of one or more components in a multiple-component agreement is not determinable (where such component is not considered incidental to the overall arrangement), the entire arrangement fee is deferred until such fair value is determinable, or the component has been delivered to the licensee. Where, in substance, two or more components of a contract are linked and fair values cannot be allocated to the individual components, the revenue recognition criteria are applied to the components as if they were a single component.

Agreements including rights to unspecified future products (as opposed to unspecified upgrades and enhancements) are accounted for using subscription accounting, with revenue from the arrangement being recognised on a straight-line basis over the term of the arrangement, or an estimate of the economic life of the products offered if no term is specified, beginning with the delivery of the first product.

### *Royalty revenues:*

Royalty revenues are earned on sales by the Group's customers of products containing ARM technology. Royalty revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue can be reliably measured, which the Group considers to be receipt of notification from the customer of product sales. Notification is typically received in the quarter following shipment of the products by the customer.

## 1b Summary of significant accounting policies continued

### Revenue recognition continued

#### Other revenues:

In addition to licence fees, contracts generally contain an agreement to provide post-delivery service support (in the form of support, maintenance and training) which consists of the right to receive services and/or unspecified product upgrades or enhancements that are offered on a when-and-if-available basis. Fees for post-delivery service support are generally specified in the contract. Revenue related to post-delivery service support is recognised based on fair value, which is determined with reference to contractual renewal rates. Where renewal rates are specified, revenue for post-delivery service 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. 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 recognised as services are performed and it is probable that the economic benefits associated with the transaction will flow to the Group.

Sales of software, including development systems, which are not specifically designed for a given licence (such as off-the-shelf software) are recognised upon delivery, when the significant risks and rewards of ownership have been transferred to the customer. At that time, the Group has no further obligations except that, where necessary, the costs associated with providing post-delivery service support have been accrued.

For all types of revenue, if the amount of revenue recognised exceeds the amounts invoiced to customers, the excess amount is recorded as amounts recoverable on contracts within accounts receivable. The excess of amounts invoiced over revenue recognised is recorded as deferred revenue.

#### Intangible assets

(a) *Goodwill* Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified, and liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, the fair value of share options is calculated using the Black-Scholes valuation model, and the fair value of contingent consideration is based upon whether the directors believe any performance conditions will be met and thus whether any further consideration will be payable.

(b) *Other intangible assets* Computer software, purchased patents and licences to use technology are capitalised at cost and amortised on a straight-line basis over an estimate of the time that the Group is expected to benefit from them. Costs that are directly attributable to the development of new business application software and that are incurred during the period prior to the date that the software is placed into operational use, are capitalised. External costs and internal costs are capitalised to the extent they enhance the future economic benefit of the asset acquired.

Although an independent valuation is made of any intangible assets purchased as part of a business combination, the directors are primarily responsible for determining the fair value of acquired intangible assets.

In-process research and development projects purchased as part of a business combination may meet the criteria set out in IFRS 3 (revised), “Business combinations”, for recognition as intangible assets other than goodwill. Management tracks the status of in-process research and development intangible assets such that their amortisation commences when the assets are brought into use.

Order backlog is derecognised when it has been fully amortised.

Amortisation is calculated so as to write off the cost of intangible assets, less their estimated residual values, which are adjusted (if appropriate) at each balance sheet date, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal economic lives used for this purpose are:

Computer software	Three to five years
Patents and licences	Three to eleven years
In-process research and development	One to five years
Developed technology	One to seven years
Existing agreements and customer relationships	One to six years
Core technology	Five years
Trademarks and tradenames	One to five years
Order backlog	One year

# Notes to the financial statements continued

## 1b Summary of significant accounting policies continued

### Income taxes

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

From April 2013, the benefit of UK research and development is recognised under the UK's Research and Development Expenditure Credit (RDEC) scheme. The benefit is recorded as income included in profit before tax, netted against research and development expenses as the RDEC is of the nature of a government grant.

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

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

In 2013, a decision to elect into the UK patent box regime was made. The UK patent box regime seeks to tax all profits attributable to patented technology at a reduced rate of 10%. The rules are to be phased in over five years from 1 April 2013 – a company will be entitled to only 60% of the deduction in financial year 2013/14, rising to 100% by 2017/18. As "relevant" patent box profits are taxed at 10% and other profits are taxed at UK statutory rates, deferred tax assets and liabilities are measured using the average rates expected to apply on realisation or settlement.

In the UK and the US, the Group is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options or vest of share awards under each jurisdiction's tax rules. As explained under "Share-based payments" below, a compensation expense is recorded in the Group's income statement over the period from the grant date to the vesting date of the relevant options and awards. As there is a temporary difference between the accounting and tax bases, a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the compensation expense at the statutory rate, the excess is recorded directly in equity, against retained earnings.

### Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, for example goodwill, are not subject to amortisation but are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the non-financial asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The annual impairment tests in 2014 and 2013 showed there was no impairment with respect to goodwill. Furthermore, no trigger events have been identified that would suggest the impairment of any of the Group's other intangible assets.

## 1b Summary of significant accounting policies continued

### *Impairment of non-financial assets continued*

The Group considers at each reporting date whether there is any indication that tangible fixed assets are impaired. If there is such an indication, the Group carries out an impairment test by measuring the assets' recoverable amounts, which are the higher of the assets' fair values less costs to sell and their values-in-use. If the recoverable amounts are less than the carrying amounts an impairment loss is recognised, and the assets are written down to their recoverable amounts.

In the case of equity securities classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are permanently impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any permanent impairment loss on that financial asset previously recognised in the income statement – is recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed.

Impairment testing of trade receivables is described under "Accounts receivable" below.

### *Provisions*

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

### *Exceptional items*

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature.

### *Segment reporting*

The Group's internal operational structure was re-organised on 1 January 2014, to create an organisation that is more scalable and more accountable, and that offers a more integrated product portfolio. As at 31 December 2014, the Group's internal organisation and management structure reflect this change and this is the primary way in which the Chief Operating Decision Maker (CODM) is provided with financial information. The CODM assesses performance and allocates resources based on consolidated results of operations. The directors believe that the CODM is the Chief Executive Officer and the Executive Committee of the Group. At 30 June 2014, the changes had not been fully reflected in the Group's internal reporting systems and therefore the interim results were issued under the previous structure. The reporting systems were fully updated for the re-organisation in the second half of 2014. As a result, the Group now has one reportable segment.

### *Principles of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated on consolidation. All subsidiaries use uniform accounting policies.

# Notes to the financial statements continued

## 1b Summary of significant accounting policies continued

### *Principles of consolidation continued*

- **Business combinations**

The results of subsidiaries acquired are included in the income statement from the date of acquisition. Assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Earn-outs paid as part of an acquisition are assessed on an individual basis and treated as either part of the acquisition consideration or as employee compensation depending on the nature of the agreement.

- **Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

- **Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition.

- **Joint ventures**

Joint ventures are all arrangements in which the Group has joint control with one or more other parties, whereby each party has a right to a share of the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition.

### *Research and development expenditure*

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

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

### *Government grants*

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

## 1b Summary of significant accounting policies continued

### *Share-based payments*

The Group issues equity-settled share-based payments to certain employees. In accordance with IFRS 2 “Share-based payments”, equity-settled share-based payments are measured at fair value at the date of grant. Fair value is predominantly measured by use of the Black-Scholes pricing model. A Monte-Carlo simulation is used for certain share awards that have market-based performance conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of the number of shares that will eventually vest.

The Group operates Save As You Earn (SAYE) schemes in the UK and an Employee Share Purchase Plan (ESPP) in the US, India, Asia Pac countries and certain European countries. Options under the SAYE schemes are granted at a 20% discount to the market price of the underlying shares on the date of announcement of the scheme and at a 15% discount to the lower of the market prices at the beginning and end of the scheme for the ESPP. The UK SAYE schemes are approved by the UK tax authorities, which stipulates that the saving period must be at least 36 months. The Group has recognised a compensation charge in respect of the SAYE plans and ESPPs. The charges for these are calculated as detailed above.

The Group also has an LTIP on which it is also required to recognise a compensation charge under IFRS 2, calculated as detailed above.

The share-based payments charge is allocated to cost of sales, research and development expenses, sales and marketing expenses, and general and administrative expenses on the basis of headcount.

### *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 and vesting of share awards. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the intrinsic value of the relevant options and awards at the balance sheet date, and pro-rated over the vesting period of the options and awards.

### *Retirement benefit costs*

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

### *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Costs, net of any lease incentives, in respect of operating leases are charged on a straight-line basis over the lease term even if payments are not made on such a basis.

### *Finance leases*

Leases in which substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease liability. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

# Notes to the financial statements continued

## 1b Summary of significant accounting policies continued

### Foreign currency translation

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

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

(c) *Group companies* The results and financial positions of all Group entities (none of which has the currency of a hyper-inflationary economy) not based in the UK are translated into sterling as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rates of exchange at the balance sheet date.
- (ii) Income and expenses for each income statement presented are translated at the rates of exchange at the time of each transaction during the period.
- (iii) All resulting exchange differences are recognised as a separate component of equity, being taken through other comprehensive income via the cumulative translation adjustment.

When a foreign operation is partially disposed of or sold, exchange differences that were recognised through other comprehensive income are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates of exchange.

### Derivative financial instruments

The Group utilises currency exchange contracts to manage the exchange risk on actual transactions related to accounts receivable, denominated in a currency other than the functional currency of the business. The Group's currency 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. The currency exchange contracts are recorded at fair value and the related foreign currency accounts receivable are revalued to spot rates at each period end. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of foreign currency options is based upon valuations performed by management and the respective banks holding the currency instruments. All recognised gains and losses resulting from the settlement of the contracts are recorded within general and administrative expenses in the income statement. The Group does not enter into currency exchange contracts for the purpose of hedging anticipated transactions.

### Embedded derivatives

In accordance with IAS 39 "Financial instruments: recognition and measurement", the Group has reviewed all its contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. From time to time, the Group may enter into contracts denominated in a currency (typically US dollars) that is neither the functional currency of the Group entity nor the functional currency of the customer or the collaborative partner. Where there are uninvoiced amounts on such contracts, the Group carries such derivatives at fair value. The resulting gain or loss is recognised in the income statement under general and administrative expenses.

### Investment income, and interest payable and similar charges

Investment income, and interest payable and similar charges relate to interest income and expense, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.



## 1b Summary of significant accounting policies continued

### *Dividends*

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

### *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 as treasury stock, 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 two categories of dilutive potential ordinary shares during the year: those being share options granted to employees and directors where the exercise price is less than the average market price of the Company's ordinary shares during the year and the awards and contingently issuable shares granted under the Company's RSU, DAB Plan, and LTIP schemes. As at 31 December 2014, no shares granted under the 2013 and 2014 LTIPs with market-based performance conditions were included since the current expectation is that these shares will not vest. Shares granted with EPS related performance conditions and those granted under the 2012 LTIP (for which the performance period is now concluded) have been included to the extent that it is expected that the shares will vest.

Reconciliations of the earnings and weighted average number of shares used in the calculations are shown on the face of the consolidated income statement.

### *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held with banks, and other short-term highly-liquid investments with original maturities of three months or less. The carrying amount approximates to fair value because of the short-term maturity of these instruments.

### *Short- and long-term deposits and similar instruments*

The Group considers all highly-liquid investments with original maturity dates of greater than three months and maturing in less than one year to be short-term deposits. Deposits with a maturity date of greater than one year from the balance sheet date are classified as long-term.

The Group has also placed money with certain banks in the form of Guaranteed Senior Secured Notes which have similar characteristics to term deposits and may be short- or long-term.

### *Accounts receivable*

Accounts receivable are initially recognised at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Accounts receivable are first assessed individually for impairment. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are collectively assessed for impairment.

In the case of impairment, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

# Notes to the financial statements continued

## 1b Summary of significant accounting policies continued

### *Property, plant and equipment*

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

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

Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, which are adjusted, if appropriate, at each balance sheet date, 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 to ten years or term of lease, whichever is shorter
Computer equipment	Three to five years
Fixtures, fittings and motor vehicles	Three to five years

Provision is made against the carrying value of property, plant and equipment where an impairment in value is deemed to have occurred. Asset lives and residual values are reviewed on an annual basis.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within general and administrative expenses in the income statement.

### *Financial assets*

The Group classifies its financial assets in the following categories: at fair value through the income statement, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

*(a) Financial assets at fair value through the income statement* Financial assets at fair value through the income statement are financial assets held-for-trading – that is, assets that have been acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets. They are initially recognised at fair value with transaction costs being expensed in the income statement. Specifically, the Group's currency exchange contracts and embedded derivatives fall within this category. Gains or losses arising from changes in the fair value of "financial assets at fair value through the income statement" are presented in the income statement within general and administrative expenses in the period in which they arise.

*(b) Loans and receivables* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. "Accounts receivable", "cash and cash equivalents", and "short- and long-term deposits and similar instruments" are classified as "Loans and receivables" (see note 17).

Loans and receivables are measured initially at fair value and then subsequently measured at amortised cost.

*(c) Available-for-sale financial assets* AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months of the balance sheet date.

## 1b Summary of significant accounting policies continued

### *Financial assets continued*

Equity investments that are not publicly traded are also classified as AFS and are initially recorded at fair value plus transaction costs. Given that the markets for these assets are not active, the Group establishes fair value by using valuation techniques. The estimated fair value of these investments approximated to cost less any permanent diminution in value (based on estimates determined by management), except where independent valuation information is obtained. Unrealised holding gains or losses on such securities are recognised, net of related taxes, through other comprehensive income via a revaluation reserve, except where there is evidence of permanent impairment (in which case the loss is recognised through the income statement within general and administrative expenses or exceptional items where appropriate). When securities classified as AFS are sold, the accumulated fair value adjustments recognised through other comprehensive income are recycled through the income statement.

### *Accounts payable*

Accounts payable are recognised at face value as they are settled within 12 months.

### *Treasury shares*

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

### *Share capital*

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

## 1c Financial risk management

The Group operates in the intensely competitive semiconductor industry, which has been characterised 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.

The Group's operations expose it to a variety of financial risks that include currency risk, interest rate risk, securities price risk, credit risk and liquidity risk.

Given the size of the Group, the directors have not delegated the responsibility for monitoring financial risk management to a sub-committee of the Board. The policies set by the directors are implemented by the Group's finance and treasury departments. The Group has a treasury policy that sets out specific guidelines to manage currency risk, interest rate risk, credit risk and liquidity risk and also sets out circumstances where it would be appropriate to use financial instruments to manage these.

### *Currency 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 its revenues and cash receipts are denominated in US dollars, while a significant proportion of its costs are settled in sterling. The Group seeks to use currency exchange contracts and currency options 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 and royalty receipts) 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 currency exchange contracts and currency options 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.

The Group is also exposed to currency risk in respect of the foreign currency denominated assets and liabilities of its overseas subsidiaries. At present, the Group does not consider this to be a significant risk since the Group does not intend to move assets between Group companies.

# Notes to the financial statements continued

## Ic Financial risk management continued

### *Currency risk continued*

The Group has elected not to apply hedge accounting, and all movements in the fair value of derivative foreign exchange instruments are recorded in the income statement, offsetting the foreign exchange movements on the accounts receivable, and cash and cash equivalents balances being hedged.

In addition, certain customers remit royalties and licence fees in other currencies, primarily the euro and Japanese yen. The Group is also required to settle certain expenses in these currencies, primarily in its French, German and Japanese subsidiaries, and as the net amounts involved are not considered significant, the Group does not take out forward-settling currency exchange contracts in these currencies.

### *Interest rate risk*

Floating rate cash earns interest based on relevant national LIBID or base rate equivalents and is therefore exposed to cash flow interest rate risk. The proportion of funds held in fixed rather than floating rate deposits is determined in accordance with the policy outlined under "Liquidity risk" below. Other financial assets, such as AFS financial assets, are not directly exposed to interest rate risk.

The Group had no derivative financial instruments to manage interest rate fluctuations in place at the year-end since the level of financing was not considered significant, and as such no hedge accounting is applied. The Group's cash flow is carefully monitored on a daily basis. Excess cash, considering expected future cash flows, is placed on either short- or long-term deposits to maximise the interest income thereon. Daily surpluses are swept into higher-interest earning accounts overnight.

### *Securities price risk*

The Group is exposed to equity securities price risk on AFS financial assets. As there can be no guarantee that there will be a future market for these securities (which are generally unlisted at the time of investment) or that the value of such investments will rise, the directors evaluate each investment opportunity on its merits before committing the Group'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 limited in order that the financial effect of any potential decline of the value of investments will not be substantial in the context of the Group's financial results.

### *Credit risk*

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

At 31 December 2014 and 2013, the Group had no significant concentrations of credit risk. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed periodically by the directors.

The Group has implemented policies that require appropriate credit checks on potential customers before sales commence. The Group generally does not require collateral on accounts receivable, as many of its 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 individually large value transactions. The Group performs credit checks on all customers (other than those paying in advance) in order to assess their creditworthiness and ability to pay its invoices as they become due. As such, the balance of accounts receivable not owed by large companies is still deemed by the directors to be of low risk of default due to the nature of the checks performed on them, and accordingly a relatively small allowance against these receivables is in place to cover this low risk of default.

No credit limits were exceeded during the reporting period and the directors do not expect any significant losses from non-performance by these counterparties, other than those already provided for.

## 1c Financial risk management continued

### *Liquidity risk*

The Group's policy is to maintain balances of cash and cash equivalents, and short- and long-term deposits and similar instruments, such that highly liquid resources exceed the Group's projected cash outflows at all times. Surplus funds are placed on fixed- or floating-rate deposits depending on the prevailing economic climate at the time (with reference to forward interest rates) and also on the required maturity of the deposit (as driven by the expected timing of the Group's cash receipts and payments over the short- to medium-term).

Management monitors rolling forecasts of the Group's short- and medium-term expected cash flows. This is carried out at both a local and a Group level, with the local subsidiaries being funded by the Group as required.

### *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure. The capital structure of the Group consists of cash and cash equivalents, short- and long-term deposits and capital and reserves attributable to owners of the Company, as disclosed on the consolidated balance sheet.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets to raise cash or take on debt.

The Group's strategy is to have a capital structure that takes into account opportunities to invest in long-term profitable growth, prevailing trading conditions and the desire to improve balance sheet efficiency over time. The Group introduced a dividend in 2004 which has grown each year since. Between 2005 and 2008, an ongoing share buyback programme was in place whereby 16% of the issued share capital was bought back at an average price of £1.22. In 2014, the interim dividend was increased by 20% and the directors are proposing a 25% increase in the final dividend, reflecting the Board's long-term confidence in the business. As well as continuing to grow the dividend, the Board has undertaken a limited share buyback programme to maintain a flat share-count over time. During 2014, 7.9 million shares were repurchased for £66.9 million. The capital structure is continually monitored by the Group.

### *Valuation hierarchy*

The Group classifies its financial instruments as follows: level 1 instruments are those valued using unadjusted quoted prices in active markets for identical instruments; level 2 instruments are those valued using techniques based significantly on observable market data; and level 3 instruments are those valued using information other than observable market data.

The Group has a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. This team reports to the Chief Financial Officer and to the Audit Committee.

The fair value of accounts and other receivables, other current financial assets, cash and cash equivalents, short- and long-term deposits and similar instruments, and accounts and other payables approximate to their carrying amount.

## 2 Segmental reporting

The Group's internal operational structure was re-organised on 1 January 2014, to create an organisation that is more scalable and more accountable, and that offers a more integrated product portfolio. As at 31 December 2014, the Group's internal organisation and management structure reflect this change and this is the primary way in which the Chief Operating Decision Maker (CODM) is provided with financial information. The CODM assesses performance and allocates resources based on consolidated results of operations. The directors believe that the CODM is the Chief Executive Officer and the Executive Committee of the Group. At 30 June 2014, the changes had not been fully reflected in the Group's internal reporting systems and therefore the interim results were issued under the previous structure. The reporting systems were fully updated for the re-organisation in the second half of 2014. As a result, the Group now has one reportable segment.

During the year ended 31 December 2014, no customer accounted for more than 10% of the Group's total revenues (2013: one customer accounted for 12%).

# Notes to the financial statements continued

## 2 Segmental reporting continued

### Geographical information

The Group manages its business on a global basis. The operations are based in three main geographical areas. The UK is the home country of the parent Company. The main operations are in the following principal territories:

- Europe
- United States
- Asia Pacific

Analysis of revenue by destination\*:

	2014 £m	2013 £m
United States	321.8	280.3
Taiwan	133.7	99.4
PR China	114.5	90.0
South Korea	68.5	101.7
Japan	60.4	47.6
Singapore	18.5	24.6
Switzerland	17.9	24.8
Germany	12.3	13.4
Russia	11.3	0.5
Netherlands	8.1	8.5
Rest of Europe	21.9	19.2
Rest of Asia Pacific	4.7	3.6
Rest of North America	1.6	1.0
	<b>795.2</b>	<b>714.6</b>

\* Destination is defined as the location of the Group's customers' operations.

The Group's revenue within the home country of the parent Company amounted to £7.8 million and £4.9 million for the years ended 31 December 2014 and 2013 respectively. The Group's exports from the UK were £778.9 million and £699.2 million for the years ended 31 December 2014 and 2013 respectively.

Analysis of revenue by origin:

	2014 £m	2013 £m
Europe*	786.9	705.3
United States	8.3	9.3
	<b>795.2</b>	<b>714.6</b>

\* Includes the UK, which had total revenues of £786.7 million in 2014 (2013: £704.1 million).

Analysis of revenue by revenue stream:

	2014 £m	2013 £m
Royalties – Processors	326.0	317.5
Royalties – Physical IP	36.5	40.8
Licensing – Processors	309.1	244.4
Licensing – Physical IP	52.1	41.2
Software and tools	35.0	36.4
Services	36.5	34.3
	<b>795.2</b>	<b>714.6</b>

## 2 Segmental reporting continued

### Geographical information continued

Analysis of non-current assets (excluding deferred tax assets, goodwill and other intangible assets):

	2014 £m	2013 £m
Europe*	237.7	172.0
United States	23.4	7.2
Asia Pacific	5.2	5.0
	<b>266.3</b>	<b>184.2</b>

\* Includes the UK, which had non-current assets (excluding deferred tax assets, goodwill and other intangible assets) of £235.5 million in 2014 (2013: £171.0 million), of which long-term deposits accounted for £191.4 million (2013: £125.6 million).

## 3 Key management compensation and directors' emoluments

### Key management compensation

The directors are of the opinion that the key management of the Group comprises the executive and non-executive directors of ARM Holdings plc together with the Executive Committee (comprising all directors of ARM Limited and certain senior management). These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. At 31 December 2014, key management comprised 20 people (2013: 21).

The aggregate amounts of key management compensation are set out below:

	2014 £m	2013 £m
Salaries and short-term employee benefits	6.9	9.5
Share-based payments	7.9	6.1
Post-employment benefits	0.4	0.2
	<b>15.2</b>	<b>15.8</b>

### Directors' emoluments

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

	2014 £m	2013 £m
Aggregate emoluments in respect of qualifying services	2.8	3.8
Aggregate payments for pension-related benefits	0.2	0.2
Aggregate gains on exercise of share options	0.1	3.9
Aggregate amounts receivable in shares under the DAB Plan	2.5	12.9
Aggregate amounts receivable under the LTIP	2.5	17.2
	<b>8.1</b>	<b>38.0</b>

Detailed disclosures of directors' emoluments are shown on page 37. Details of directors' interests in share options and awards are shown on pages 43 to 50, which form part of the financial statements.



# Notes to the financial statements continued

## 4 Employee information

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

	2014 Number	2013 Number
<b>By activity</b>		
Research and development	2,173	1,803
Sales and marketing	481	425
General and administrative	418	370
	<b>3,072</b>	<b>2,598</b>

	2014 £m	2013 £m
<b>Staff costs (for the above persons)</b>		
Wages and salaries	203.6	185.4
Medical care costs	6.1	5.5
Share-based payments (note 21)	68.5	59.2
Social security costs	29.1	35.1
Movement on provision for social security costs on share awards	(2.4)	(1.4)
Other pension costs	11.5	8.7
	<b>316.4</b>	<b>292.5</b>

## 5 Profit before tax: analysis of expenses by nature

The following items have been charged/(credited) to the income statement in arriving at profit before tax:

	2014 £m	2013 £m
Staff costs, including share-based payments (note 4)	316.4	292.5
Cost of inventories recognised as an expense	3.8	2.8
Depreciation of property, plant and equipment – owned assets (note 12)	14.1	11.6
Depreciation of property, plant and equipment – under finance leases (note 12)	5.0	2.8
Amortisation of other intangible assets (note 14)		
– Cost of revenues	0.3	0.3
– Research and development expenses	7.5	6.9
– Sales and marketing expenses	0.2	0.6
– General and administrative expenses	8.5	5.8
Government grants – research and development expenditure credit	(8.8)	(5.8)
Exceptional items (note 6)		
– Impairment of current AFS financial asset	–	59.5
– IP indemnity and similar charges	–	41.8
Impairment of non-current AFS financial assets (note 11)	1.0	6.8
Profit on disposal of AFS financial assets	(0.3)	(3.3)
Other operating lease rentals payable		
– Plant and machinery	26.0	26.2
– Property	11.3	8.7
Accounts receivables impairment (including movement in provision) (note 9)	0.3	4.0
Fair value movement on embedded derivatives	(9.6)	4.5
Other foreign exchange losses/(gains)	6.8	(3.3)

## Services provided by the Group's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor and its associates:

	2014 £m	2013 £m
Fees payable to the Group's auditor and its associates for the audit of the Company and consolidated financial statements	0.3	0.3
Fees payable to the Group's auditor and its associates for other services:		
– The audit of the Group's subsidiaries	0.2	0.2
– Audit-related assurance services (services pursuant to section 404 of the Sarbanes-Oxley Act)	0.4	0.3
– Other assurance services	–	0.1
Statutory audit, financial reporting and other related services	0.9	0.9
– Tax advisory services	0.1	0.1
– All other non-audit services*	0.1	0.1
	1.1	1.1

\* All other non-audit services includes the provision of advice relating to the Group's procurement model in 2014 and fees for the performance of royalty audits in 2013.

# Notes to the financial statements continued

## 6 Exceptional items

### *IP indemnity and similar charges*

During 2013, the Group incurred indemnification costs amounting to \$18.0 million. Further in relation to legal proceedings regarding the same patent portfolio, for a consideration of \$45.4 million, the Group entered into a licence agreement with a third-party covering patents being asserted against ARM technology in litigation between the patentee and a number of licensees of ARM technology. The licence was entered into in full and final settlement of any indemnity claims with respect to the asserted patents and will prevent any future assertion of the patents against ARM technology. Total indemnification, settlement and licence costs of \$63.4 million (£41.8 million) were expensed as an exceptional item in 2013, resulting in a tax deduction in current tax of £9.7 million.

### *Impairment of available-for-sale financial assets (current)*

During 2013, the Group participated in a consortium, via a trust, to acquire certain patent rights. These rights were not subject to actual or threatened legal proceedings. Of the Group's total contribution to the consortium, \$100.5 million was classified within current AFS financial assets (£60.7 million after translation at 31 December 2013 exchange rates) and \$67 million, the residual, was classified within other intangible assets (£37.4 million after amortisation to 31 December 2013). The AFS financial asset represented ARM's right to receive cash from the Group's financial interest in the consortium, as it was anticipated that a programme of licensing the patents to third-parties would be undertaken by the trust. The other intangible asset consists of IP rights that are being amortised over a period of eight-and-a-half years from March 2013, being the average remaining life of the underlying patent portfolio.

In Q4 2013, the trust made a strategic decision not to pursue a licensing programme and the portfolio was instead put up for sale by auction. The Group acquired the patents in January 2014 for \$4.0 million (£2.4 million) which have been accounted for as an additional intangible asset. As there was no longer an expectation of any future cash flows with respect to licensing of the patents by the trust, at 31 December 2013 the AFS financial asset was impaired down to the value of the Group's share of the auction proceeds, giving rise to a non-cash exceptional charge in 2013 of \$98.5 million (£59.5 million). As disclosed in note 7, a deferred tax asset was not recognised in relation to this exceptional item, increasing the current tax charge by £18.3 million in 2013.

There were no exceptional items in 2014.

## 7 Tax

Analysis of charge in the year:

	2014 £m	2013 £m
Current tax:		
Current tax on profits for the year	54.5	56.5
Adjustments in respect of prior years	(1.0)	(0.2)
Total current tax	53.5	56.3
Deferred tax:		
Origination and reversal of temporary differences	8.6	(4.1)
Adjustment in respect of prior years	(1.0)	–
Impact of change in the UK statutory tax rate	–	0.1
Impact of change due to the UK patent box regime	–	5.5
Total deferred tax	7.6	1.5
<b>Income tax expense</b>	<b>61.1</b>	<b>57.8</b>

Analysis of tax on items charged to equity:

	2014 £m	2013 £m
Deferred tax charge on outstanding share options and awards	10.6	4.8
Current tax benefit on share options and awards	(10.9)	(27.0)
Deferred tax charge on AFS financial assets	1.1	–

## 7 Tax continued

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

	2014 £m	2013 £m
Profit before tax	316.5	162.6
Profit before tax at the corporation tax rate of 21.5% (2013: 23.25%)	68.1	37.8
Effects of:		
Adjustments in respect of prior years	(2.0)	(0.2)
Adjustments in respect of foreign tax rates	6.3	4.1
Research and development tax credits	(3.7)	(6.6)
Current impact of the UK patent box regime	(15.9)	(4.8)
Remeasurement of deferred tax assets due to reduction in UK statutory tax rate	—	0.1
Remeasurement of deferred tax assets due to the UK patent box regime	—	5.5
US deferred tax assets not recognised *	0.9	17.5
Foreign withholding tax **	(2.5)	3.0
Impact of share-based payments	5.2	(1.5)
Other ***	4.7	2.9
<b>Total taxation</b>	<b>61.1</b>	<b>57.8</b>

\* 2014 amount includes California R&D tax credits not recognised as future California tax is not expected to absorb all of the tax benefit.

\*\* Includes a repayment of Taiwanese withholding taxes.

\*\*\* Includes expenditure disallowable for tax purposes and potential additional tax payable on income.

### Deferred tax

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

The movement on the deferred tax account is shown below:

	2014 £m	2013 £m
At 1 January	65.2	70.1
Amount acquired with subsidiary undertaking	(0.4)	(1.2)
Income statement charge	(7.6)	(1.5)
Adjustment in respect of share-based payments	(10.6)	(4.8)
Movement from current tax assets	9.3	3.0
Exchange differences	0.7	(0.4)
Revaluation of AFS financial asset	(1.1)	—
<b>At 31 December</b>	<b>55.5</b>	<b>65.2</b>

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

The amount of deferred tax assets unrecognised at 31 December 2014 was £5.8 million (2013: £23.2 million). The unrecognised deferred tax assets relate to historic losses of acquired subsidiaries and California research and development tax credits. The losses may remain unutilised due to restrictions imposed by local tax legislation and availability of relevant future profits.

No deferred tax has been recognised in respect of a further £43.1 million (2013: £33.2 million) of unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of these differences and either it is possible that such differences will not reverse in the foreseeable future or no tax is payable on the reversal.

# Notes to the financial statements continued

## 7 Tax continued

During 2014, the UK Government announced that a new Patent Box regime based on the newly adopted modified nexus approach will be introduced for IP assets submitted after 30 June 2016. UK taxpayers that have already submitted assets under the current form of the Patent Box will be allowed to continue to claim benefit through the current regime until 30 June 2021 for those assets. If these taxpayers also submit assets post 30 June 2016 then the benefits relating to these assets will be claimed under the new regime. Such taxpayers will operate under both regimes until 30 June 2021 when all benefits claimed through the Patent Box will be through the modified nexus approach. These changes have not been enacted at the balance sheet date and therefore are not taken into account in the measurement of deferred tax.

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

### Deferred tax assets

	Amounts relating to share-based payments £m	Temporary differences relating to fixed assets £m	Tax losses and R&D tax credits carried forward £m	Temporary differences relating to liabilities £m	Other £m	Total £m
At 1 January 2014	32.8	3.9	22.1	8.0	0.9	67.7
Movement from current tax assets	—	—	9.3	—	—	9.3
Income statement credit/(charge)	2.1	(2.2)	(6.2)	0.1	(0.9)	(7.1)
Movement on deferred tax arising on outstanding share options and awards	(10.6)	—	—	—	—	(10.6)
Exchange differences	—	—	0.7	—	—	0.7
<b>At 31 December 2014 (prior to offsetting)</b>	<b>24.3</b>	<b>1.7</b>	<b>25.9</b>	<b>8.1</b>	<b>—</b>	<b>60.0</b>
Offsetting of deferred tax liabilities						(4.1)
<b>At 31 December 2014 (after offsetting)</b>						<b>55.9</b>
At 1 January 2013	43.5	2.6	15.1	9.5	0.6	71.3
Amount acquired with subsidiary undertaking	—	—	0.5	—	—	0.5
Movement from current tax assets	—	—	3.0	—	—	3.0
Income statement credit/(charge)	0.8	1.3	(2.8)	(1.5)	0.3	(1.9)
Movement on deferred tax arising on outstanding share options and awards	(4.8)	—	—	—	—	(4.8)
Unutilised current year share option deductions	(6.7)	—	6.7	—	—	—
Exchange differences	—	—	(0.4)	—	—	(0.4)
<b>At 31 December 2013 (prior to offsetting)</b>	<b>32.8</b>	<b>3.9</b>	<b>22.1</b>	<b>8.0</b>	<b>0.9</b>	<b>67.7</b>
Offsetting of deferred tax liabilities						(2.4)
<b>At 31 December 2013 (after offsetting)</b>						<b>65.3</b>

The deferred tax asset to be recovered after more than one year is £32.0 million (2013: £35.2 million).

## 7 Tax continued

### Deferred tax liabilities

	Amounts relating to intangible assets arising on acquisition £m	Temporary difference on AFS financial assets £m	Other £m	Total £m
At 1 January 2014	2.5	—	—	2.5
Amount acquired with subsidiary undertaking	0.4	—	—	0.4
Income statement charge	0.2	—	0.3	0.5
Movement through reserves	—	1.1	—	1.1
<b>At 31 December 2014 (prior to offsetting)</b>	<b>3.1</b>	<b>1.1</b>	<b>0.3</b>	<b>4.5</b>
Offsetting of deferred tax assets				(4.1)
<b>At 31 December 2014 (after offsetting)</b>				<b>0.4</b>
At 1 January 2013	1.1	—	0.1	1.2
Amount acquired with subsidiary undertaking	1.7	—	—	1.7
Movement in respect of amortisation of intangible assets	(0.2)	—	—	(0.2)
Other short-term differences	(0.1)	—	(0.1)	(0.2)
<b>At 31 December 2013 (prior to offsetting)</b>	<b>2.5</b>	<b>—</b>	<b>—</b>	<b>2.5</b>
Offsetting of deferred tax assets				(2.4)
<b>At 31 December 2013 (after offsetting)</b>				<b>0.1</b>

The deferred tax liability due after more than one year prior to offsetting is £1.0 million (2013: £1.2 million).

## 8 Dividends

	2014 £m	2013 £m
Final 2012 paid at 2.83 pence per share	—	39.5
Interim 2013 paid at 2.10 pence per share	—	29.4
Final 2013 paid at 3.60 pence per share	50.7	—
Interim 2014 paid at 2.52 pence per share	35.4	—
	<b>86.1</b>	<b>68.9</b>

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2014 of 4.5 pence per share, which will absorb an estimated £64 million of shareholders' funds. Subject to approval at the 2015 AGM, it will be paid on 15 May 2015 to shareholders who are on the register of members on 24 April 2015.

# Notes to the financial statements continued

## 9 Accounts receivable

	2014 £m	2013 £m
Trade debtors (including receivables from related parties – see note 25)	<b>138.5</b>	140.3
Less: Provision for impairment of trade debtors	<b>(9.0)</b>	(9.7)
Trade debtors, net	<b>129.5</b>	130.6
Amounts recoverable on contracts	<b>9.1</b>	5.6
<b>Current accounts receivable</b>	<b>138.6</b>	<b>136.2</b>

Movements in the Group's provision for impairment of trade debtors are as follows:

	2014 £m	2013 £m
At 1 January	<b>(9.7)</b>	(2.4)
Charge to income statement	<b>(0.3)</b>	(4.0)
Utilised	<b>2.5</b>	–
Reclassification from deferred income	<b>(1.4)</b>	(3.5)
Foreign exchange	<b>(0.1)</b>	0.2
<b>At 31 December</b>	<b>(9.0)</b>	<b>(9.7)</b>

See also note 17 for further disclosure regarding the credit quality of the Group's gross trade debtors.

## 10 Prepaid expenses and other assets

	2014 £m	2013 £m
Other receivables	<b>19.3</b>	18.1
Prepayments	<b>23.9</b>	21.7
Current prepaid expenses and other assets	<b>43.2</b>	39.8
Plus: non-current prepayments	<b>1.7</b>	1.6
<b>Total prepaid expenses and other assets</b>	<b>44.9</b>	<b>41.4</b>

## 11 Available-for-sale financial assets

	2014 £m	2013 £m
<b>Non-current available-for-sale financial assets</b>		
<b>Net book value</b>		
At 1 January	13.9	13.8
Additions	5.0	8.9
Revaluation recognised through other comprehensive income	5.4	—
Disposals	—	(1.7)
Foreign exchange translation	0.4	(0.3)
Impairment recognised through income statement (general and administrative expenses)	(1.0)	(6.8)
<b>At 31 December</b>	<b>23.7</b>	<b>13.9</b>

	2014 £m	2013 £m
<b>Current available-for-sale financial assets</b>		
<b>Net book value</b>		
At 1 January	1.2	—
Additions	—	63.4
Disposals	(1.2)	—
Foreign exchange translation	—	(2.7)
Impairment recognised through income statement (as an exceptional item, see note 6)	—	(59.5)
<b>At 31 December</b>	<b>—</b>	<b>1.2</b>

All investments noted above are considered to be level 3 financial assets. See note 17.

### Non-current investments

Those unlisted companies in which the Group has invested are generally early-stage development enterprises, which are generating value for shareholders through research and development activities, and most do not currently report profits. The fair value of these investments is considered to approximate to cost or is determined using independent valuation information where available.

A permanent 10% fall in the underlying value of those unlisted companies in which the Group has invested and does not have independent valuation information (e.g. through the occurrence of transactions in the relevant entity's equity instruments) as at 31 December 2014 would have reduced the Group's post-tax profit by £1.5 million (2013: £1.1 million) and resulted in a £nil (2013: £nil) reduction in other components of equity.

The Group's investments include the following companies:

- Amantys Limited
- Ambiq Micro Inc.
- Cambridge Innovation Capital plc
- Carbon Design Systems Inc.
- Cyclos Semiconductor Inc.
- Marmalade Technologies Limited (formerly Ideaworks 3D Limited)
- Shanghai Walden Venture Capital Enterprise
- Thunder Software Technology Co. Ltd
- Triad Semiconductor Inc.

At 31 December 2014 and 2013, the Group had no listed investments.



# Notes to the financial statements continued

## 11 Available-for-sale financial assets continued

Available-for-sale financial assets include the following:

	2014 £m	2013 £m
Unlisted equity securities – UK	6.5	6.2
Unlisted equity securities – US	1.6	1.4
Unlisted equity securities – ROW	7.4	1.9
Convertible loan notes – UK	1.3	1.3
Convertible loan notes – US	6.9	3.1
<b>Total non-current available-for-sale financial assets</b>	<b>23.7</b>	<b>13.9</b>

Non-current available-for-sale financial assets are held in the following currencies:

	2014 £m	2013 £m
Sterling	15.5	9.5
US dollars	8.2	4.4
<b>Total non-current available-for-sale financial assets</b>	<b>23.7</b>	<b>13.9</b>

## 12 Property, plant and equipment

	Freehold buildings £m	Leasehold improvements £m	Computer equipment £m	Fixtures, fittings and motor vehicles £m	Assets in the course of construction £m	Total £m
<b>Cost</b>						
At 1 January 2014	0.2	24.2	49.4	7.0	0.7	81.5
Additions	–	3.0	21.8	1.6	1.9	28.3
Acquisitions	–	–	0.1	0.2	–	0.3
Transfers	–	–	1.0	–	(1.0)	–
Reclassification*	–	–	–	–	(0.3)	(0.3)
Disposals	–	(7.8)	(3.6)	(0.6)	–	(12.0)
Exchange differences	–	0.6	1.8	–	(0.3)	2.1
<b>At 31 December 2014</b>	<b>0.2</b>	<b>20.0</b>	<b>70.5</b>	<b>8.2</b>	<b>1.0</b>	<b>99.9</b>
<b>Accumulated depreciation</b>						
At 1 January 2014	0.1	14.5	28.9	4.4	–	47.9
Charge for the year	–	2.8	15.1	1.2	–	19.1
Acquisitions	–	–	0.1	0.1	–	0.2
Disposals	–	(7.7)	(3.3)	(0.6)	–	(11.6)
Exchange differences	–	0.2	0.6	0.1	–	0.9
<b>At 31 December 2014</b>	<b>0.1</b>	<b>9.8</b>	<b>41.4</b>	<b>5.2</b>	<b>–</b>	<b>56.5</b>
<b>Net book value</b>						
<b>At 31 December 2014</b>	<b>0.1</b>	<b>10.2</b>	<b>29.1</b>	<b>3.0</b>	<b>1.0</b>	<b>43.4</b>

## 12 Property, plant and equipment continued

	Freehold buildings £m	Leasehold improvements £m	Computer equipment £m	Fixtures, fittings and motor vehicles £m	Assets in the course of construction £m	Total £m
<b>Cost</b>						
At 1 January 2013	0.2	23.1	48.8	6.4	3.5	82.0
Additions	—	2.5	8.1	1.8	2.6	15.0
Acquisitions	—	—	0.1	0.1	—	0.2
Transfers	—	0.9	2.3	—	(3.2)	—
Reclassification*	—	—	(3.2)	—	(1.7)	(4.9)
Disposals	—	(1.7)	(5.7)	(1.0)	(0.4)	(8.8)
Exchange differences	—	(0.6)	(1.0)	(0.3)	(0.1)	(2.0)
<b>At 31 December 2013</b>	<b>0.2</b>	<b>24.2</b>	<b>49.4</b>	<b>7.0</b>	<b>0.7</b>	<b>81.5</b>
<b>Accumulated depreciation</b>						
At 1 January 2013	0.1	13.9	27.5	4.4	—	45.9
Charge for the year	—	2.3	11.0	1.1	—	14.4
Acquisitions	—	—	0.1	—	—	0.1
Reclassification*	—	—	(3.2)	—	—	(3.2)
Disposals	—	(1.5)	(5.7)	(1.0)	—	(8.2)
Exchange differences	—	(0.2)	(0.8)	(0.1)	—	(1.1)
<b>At 31 December 2013</b>	<b>0.1</b>	<b>14.5</b>	<b>28.9</b>	<b>4.4</b>	<b>—</b>	<b>47.9</b>
<b>Net book value</b>						
<b>At 31 December 2013</b>	<b>0.1</b>	<b>9.7</b>	<b>20.5</b>	<b>2.6</b>	<b>0.7</b>	<b>33.6</b>

Included within computer equipment are assets with net book value of £9.5 million (2013: £6.6 million) held under finance leases.

\* Reclassification from property, plant and equipment to intangible assets (software).

## 13 Goodwill

	£m
At 1 January 2013	519.4
Exchange differences	(9.9)
Acquisition – Sensinode (note 20)	6.4
Acquisition – Geomerics (note 20)	10.0
At 31 December 2013	525.9
Exchange differences	30.1
Acquisition – Duolog (note 20)	10.7
Acquisition – Offspark (note 20)	0.3
<b>At 31 December 2014</b>	<b>567.0</b>

# Notes to the financial statements continued

## 13 Goodwill continued

The Group's internal operational structure was re-organised on 1 January 2014, to create an organisation that is more scalable and more accountable, and that offers a more integrated product portfolio. As a result, the Group has one reportable segment and now reviews the carrying value of its assets including goodwill at the operating segment level.

During the fourth quarter of 2014, the directors tested the Group's balance of goodwill for impairment in accordance with IAS 36 "Impairment of assets". The recoverable amount has been measured based on a value-in-use calculation.

The key assumptions in the value-in-use calculations were:

**Period of projected cash flows** The directors have used a ten-year forecast period with an assumed terminal growth rate after 2024 of 3% per annum. Given the long-term nature of the ARM licensing and royalty business model, it is considered appropriate to use a ten-year forecast period to assess the expected future cash flows to be generated from the assets under review.

**Revenue growth** Revenue growth assumptions are based on financial budgets and forecasts approved by senior management, taking into account typical semiconductor industry growth rates and ARM's historical experience in the context of wider industry and economic conditions.

**Operating margins** Operating margins have been assumed to rise steadily over the period of the calculation.

**Discount rate** Future cash flows are discounted at a rate of 10% per annum post tax.

**Conclusion** The directors are confident that the amount of goodwill is appropriate and that the assumptions used in estimating its recoverable amount are appropriate. Whilst it is conceivable that a key assumption in the calculation could change, the directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated recoverable amount exceeds the carrying value.

## 14 Other intangible assets

	Computer software £m	Patents and licences £m	In-process research and development £m	Developed technology £m	Existing agreements and customer relationships £m	Core technology £m	Trademarks and tradenames £m	Total £m
<b>Cost</b>								
At 1 January 2014	19.4	100.9	5.8	46.7	52.8	16.5	4.4	246.5
Additions	2.6	5.1	—	—	—	—	—	7.7
Acquisitions	—	—	—	2.7	—	—	—	2.7
Reclassification*	0.3	—	—	—	—	—	—	0.3
Disposals	(1.7)	(6.9)	—	—	—	—	—	(8.6)
Exchange differences	0.1	—	0.4	0.9	2.4	1.0	0.3	5.1
<b>At 31 December 2014</b>	<b>20.7</b>	<b>99.1</b>	<b>6.2</b>	<b>50.3</b>	<b>55.2</b>	<b>17.5</b>	<b>4.7</b>	<b>253.7</b>
<b>Accumulated amortisation</b>								
At 1 January 2014	14.3	31.4	5.8	39.0	52.6	16.1	4.4	163.6
Charge for the year	3.0	11.0	—	1.9	0.2	0.4	—	16.5
Disposals	(1.9)	(6.9)	—	—	—	—	—	(8.8)
Exchange differences	0.1	—	0.4	1.0	2.4	1.0	0.3	5.2
<b>At 31 December 2014</b>	<b>15.5</b>	<b>35.5</b>	<b>6.2</b>	<b>41.9</b>	<b>55.2</b>	<b>17.5</b>	<b>4.7</b>	<b>176.5</b>
<b>Net book value</b>								
<b>At 31 December 2014</b>	<b>5.2</b>	<b>63.6</b>	<b>—</b>	<b>8.4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>77.2</b>

\* Reclassification from property, plant and equipment to intangible assets (software).

#### 14 Other intangible assets continued

The net book value of patents and licences includes a patent licence agreement for interconnect technology used in SoCs, with a carrying value of £14.2 million at 31 December 2014 (2013: £16.0 million) and a remaining useful life of eight years, and IP rights acquired in the prior year (see note 6) with a carrying value of £32.5 million at 31 December 2014 (2013: £37.4 million) and a remaining useful life of seven years.

	Computer software £m	Patents and licences £m	In-process research and development £m	Developed technology £m	Existing agreements and customer relationships £m	Core technology £m	Trademarks and tradenames £m	Order backlog £m	Total £m
<b>Cost</b>									
At 1 January 2013	14.1	26.8	5.9	39.6	53.3	16.8	4.5	2.0	163.0
Additions	2.0	74.1	—	7.5	0.3	—	—	—	83.9
Reclassification*	4.9	—	—	—	—	—	—	—	4.9
Disposals and derecognitions	(1.5)	—	—	—	—	—	—	(2.0)	(3.5)
Exchange differences	(0.1)	—	(0.1)	(0.4)	(0.8)	(0.3)	(0.1)	—	(1.8)
<b>At 31 December 2013</b>	<b>19.4</b>	<b>100.9</b>	<b>5.8</b>	<b>46.7</b>	<b>52.8</b>	<b>16.5</b>	<b>4.4</b>	<b>—</b>	<b>246.5</b>
<b>Accumulated amortisation</b>									
At 1 January 2013	10.3	23.1	5.9	37.7	52.8	15.5	4.5	2.0	151.8
Charge for the year	2.3	8.3	—	1.5	0.6	0.9	—	—	13.6
Reclassification*	3.2	—	—	—	—	—	—	—	3.2
Disposals and derecognitions	(1.5)	—	—	—	—	—	—	(2.0)	(3.5)
Exchange differences	—	—	(0.1)	(0.2)	(0.8)	(0.3)	(0.1)	—	(1.5)
<b>At 31 December 2013</b>	<b>14.3</b>	<b>31.4</b>	<b>5.8</b>	<b>39.0</b>	<b>52.6</b>	<b>16.1</b>	<b>4.4</b>	<b>—</b>	<b>163.6</b>
<b>Net book value</b>									
<b>At 31 December 2013</b>	<b>5.1</b>	<b>69.5</b>	<b>—</b>	<b>7.7</b>	<b>0.2</b>	<b>0.4</b>	<b>—</b>	<b>—</b>	<b>82.9</b>

\* Reclassification from property, plant and equipment to intangible assets (software).

#### 15 Accrued and other liabilities

	2014 £m	2013 £m
Accruals:		
Provision for payroll taxes on share awards	12.8	15.1
Employee bonus and sales commissions	19.3	26.5
Other accruals (including £nil non-current (2013: £2.6 million))	37.3	40.0
<b>Total accruals</b>	<b>69.4</b>	<b>81.6</b>
Other taxation and social security	4.7	4.4
Other payables	6.5	4.7
<b>Total accrued and other liabilities</b>	<b>80.6</b>	<b>90.7</b>

# Notes to the financial statements continued

## 16 Finance lease liabilities

	2014 £m	2013 £m
Gross finance lease liabilities – minimum lease payments:		
Within one year	4.1	2.9
In the second to fifth years inclusive	2.6	1.5
Less: future finance charges	(0.2)	(0.2)
<b>Present value of lease obligations</b>	<b>6.5</b>	<b>4.2</b>
Amounts due for settlement within 12 months	3.9	2.7
Amounts due for settlement after 12 months	2.6	1.5
<b>Present value of lease obligations</b>	<b>6.5</b>	<b>4.2</b>

The Group has entered into three- and four-year finance lease arrangements in respect of certain IT equipment.

## 17 Financial instruments

### (a) Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

#### Financial assets

	Loans and receivables £m	Assets at fair value through the income statement £m	Available- for-sale £m	Total £m
<b>At 31 December 2014</b>				
Cash and cash equivalents	54.1	–	–	54.1
Short-term deposits and similar instruments	620.8	–	–	620.8
Embedded derivatives	–	2.6	–	2.6
Accounts receivable (gross of impairment provision)	147.6	–	–	147.6
Total current financial assets	822.5	2.6	–	825.1
Long-term deposits and similar instruments	191.4	–	–	191.4
Loans and receivables	3.0	–	–	3.0
Available-for-sale financial assets – unlisted	–	–	23.7	23.7
Total non-current financial assets	194.4	–	23.7	218.1
<b>Total financial assets</b>	<b>1,016.9</b>	<b>2.6</b>	<b>23.7</b>	<b>1,043.2</b>
<b>At 31 December 2013</b>				
Cash and cash equivalents	43.8	–	–	43.8
Short-term deposits	544.1	–	–	544.1
Fair value of currency exchange contracts	–	5.1	–	5.1
Accounts receivable (gross of impairment provision)	145.9	–	–	145.9
Available-for-sale financial assets – unlisted	–	–	1.2	1.2
Total current financial assets	733.8	5.1	1.2	740.1
Long-term deposits	125.6	–	–	125.6
Loans and receivables	3.0	–	–	3.0
Available-for-sale financial assets – unlisted	–	–	13.9	13.9
Total non-current financial assets	128.6	–	13.9	142.5
<b>Total financial assets</b>	<b>862.4</b>	<b>5.1</b>	<b>15.1</b>	<b>882.6</b>

## 17 Financial instruments continued

### (a) Financial instruments by category continued

#### Financial liabilities

	2014 £m	2013 £m
<b>Liabilities at amortised cost at 31 December:</b>		
Accounts payable	11.7	7.0
Accrued and other liabilities*	46.8	56.3
Finance lease liabilities	6.5	4.2
	65.0	67.5
<b>Liabilities at fair value through the income statement at 31 December:</b>		
Embedded derivatives	—	7.0
Fair value of currency exchange contracts	4.8	—
<b>Total financial liabilities</b>	<b>69.8</b>	<b>74.5</b>

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

#### Valuation hierarchy

As at 31 December 2014, the Group's financial instrument assets consisted of embedded derivatives (level 2) of £2.6 million (2013: liability of £7.0 million) and AFS financial assets (level 3) of £nil (current) (2013: £1.2 million current) and £23.7 million (non-current) (2013: £13.9 million non-current).

As at 31 December 2014, the Group's financial instrument liabilities consisted of currency exchange contracts at fair value through the income statement (level 2) of £4.8 million (2013: asset of £5.1 million). The Group had no level 1 financial instruments as at 31 December 2014 (2013: £nil).

Level 2 currency exchange contracts comprise forward exchange contracts and foreign currency options. The fair value of the forward exchange contracts is determined using forward exchange rates as quoted in an active market. The fair value of foreign currency options is based upon valuations performed by management and the respective banks holding the currency instruments.

Level 2 embedded derivatives are fair valued using forward exchange rates that are quoted in an active market.

Level 3 AFS financial assets consist of unlisted equity investments and other current investments. The estimated fair value of the unlisted equity investments approximates to cost less any permanent diminution in value (based on management's estimate of forecast profitability and achievement of set objectives by the relevant entity), except where independent valuation information is obtained, e.g. through the occurrence of funding or other transactions in the relevant entity's equity instruments.

At 31 December 2013, the value of the current investment was based on the amount that was recoverable from an auction process which was held in January 2014.

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

# Notes to the financial statements continued

## 17 Financial instruments continued

### (a) Financial instruments by category continued

#### Maturity of financial liabilities

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

	Less than six months £m	Between six months and one year £m	Between one and two years £m	Over two years £m
At 31 December 2014:				
Accounts payable	11.7	—	—	—
Accrued and other liabilities	46.8	—	—	—
Finance lease liabilities	2.3	1.6	2.1	0.5
Fair value of currency exchange contracts	3.2	1.2	0.4	—
At 31 December 2013:				
Accounts payable	7.0	—	—	—
Accrued and other liabilities	52.8	0.9	2.6	—
Finance lease liabilities	1.0	1.7	1.2	0.3
Embedded derivatives	2.4	1.6	2.2	0.8

The Group had no borrowings during 2014 and 2013.

#### Loans and receivables

During 2010, the Group invested £2.5 million in an interest-free charitable bond with Future Business. This was recognised in loans and receivables at its initial fair value of £1.9 million, measured using the effective interest method, which resulted in a charge of £0.6 million being recognised as interest payable and similar charges during 2010. In addition, during 2013 the Group invested a further £0.7 million with Future Business. The carrying value of the total loans amounted to £3.0 million at 31 December 2014 (2013: £3.0 million), with less than £0.1 million being recognised as interest receivable during 2014 (2013: £0.1 million).

**Short-term deposits and similar instruments** The effective interest rate on short-term deposits and similar instruments outstanding at the year-end was 1.29% (2013: 1.85%) and these deposits have an average maturity of 205 days (2013: 178 days).

**Long-term deposits and similar instruments** The effective interest rate on long-term deposits and similar instruments outstanding at the year-end was 1.61% (2013: 1.65%) and these deposits have an average maturity of 576 days (2013: 531 days).

#### Derivative financial instruments

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

## 17 Financial instruments continued

### (a) Financial instruments by category continued

	Less than three months m	Over three months but less than six months m	Between six months and one year m	Greater than one year m
Foreign exchange forward contracts – held-for-trading at 31 December 2014				
Outflow	\$133.0	\$28.0	\$13.0	–
Inflow	£83.6	£17.9	£8.4	–
Foreign exchange options – held-for-trading at 31 December 2014				
Outflow (maximum)	\$59.1	\$59.3	\$88.5	\$24.0
Inflow (maximum)	£37.3	£37.4	£56.6	£16.0
Foreign exchange forward contracts – held-for-trading at 31 December 2013				
Outflow	\$98.0	\$13.0	\$23.0	\$9.0
Inflow	£60.9	£8.0	£14.7	£6.0
Foreign exchange options – held-for-trading at 31 December 2013				
Outflow (maximum)	\$41.0	\$29.3	\$26.2	–
Inflow (maximum)	£26.8	£19.4	£17.6	–

#### Fair value of currency exchange contracts

The fair value of currency exchange contracts is estimated using the forward rates. The estimation of the fair value of the liability in respect of currency exchange contracts was £4.8 million at 31 December 2014 (2013: asset of £5.1 million). The resulting gains and losses on the movement of the fair value of currency exchange contracts are recognised in the income statement under general and administrative expenses, amounting to a loss of £9.4 million (2013: gain of £3.4 million).

### (b) Credit quality of financial assets

#### Trade debtors

On a quarterly basis, all trade debtors more than three months overdue are considered for impairment on a line-by-line basis. Either a provision is made or the lack thereof is justified, with review by senior members of the Group's finance team.

	2014 £m	2013 £m
Trade debtors (gross of impairment provision):		
Not yet due	86.5	76.1
Under 90 days overdue	31.0	41.2
Over 90 days overdue but not provided for	12.0	13.2
Fully provided for	9.0	9.8
<b>Total</b>	<b>138.5</b>	<b>140.3</b>



# Notes to the financial statements continued

## 17 Financial instruments continued

### (b) Credit quality of financial assets continued

As shown above, at 31 December 2014, trade debtors less than 90 days overdue (excluding those amounts that are not yet due) amounted to £31.0 million. Of those outstanding at 31 December 2014, £22.1 million had been collected by 16 February 2015 and £8.3 million was owed by large, established customers. Similarly, debtors more than 90 days overdue and not provided for amounted to £12.0 million of which £4.2 million had been collected by 16 February 2015 and £3.1 million was owed by large, established customers. For the remainder, discussions regarding repayment are ongoing and repayment schedules have been agreed with the customers concerned. These will be monitored on a quarterly basis in accordance with the control outlined above. No further analysis has been provided here on the quality of these debts as they are not felt to pose a material threat to the Group's future results.

As shown above, at 31 December 2014, trade debtors fully provided for amounted to £9.0 million (2013: £9.8 million). All of the trade debtors provided for at 31 December 2014 are over six months overdue (2013: £4.0 million were up to six months overdue and £5.8 million were over six months overdue).

At 31 December 2014 and 31 December 2013, no individual customer accounted for over 10% of accounts receivable.

### Credit risk

Financial instrument counterparties are subject to pre-approval by the directors and such approval is limited to financial institutions with either a Moody's rating of at least A2/P-1, a Fitch rating of at least A/F1, or UK building societies with over £2 billion in assets, except in certain jurisdictions where the cash holding concerned is immaterial. At 31 December 2014 and 2013, the majority of the Group's cash and cash equivalents, short- and long-term deposits and similar instruments were deposited with major clearing banks and building societies in the UK and US in the form of money market deposits and corporate bonds for varying periods of up to three years. At 31 December 2014, over 99% (2013: 98%) of the Group's cash and cash equivalents, and short- and long-term deposits and similar instruments were deposited with major clearing banks and building societies fulfilling these criteria.

### Interest rate risk

At 31 December 2014, the Group had £873.1 million (2013: £713.7 million) of interest-bearing assets. At 31 December 2014, 93% (2013: 93%) of interest-bearing assets (comprising cash and cash equivalents, short- and long-term deposits and similar instruments, loans and receivables, and the Group's convertible loan notes) are at fixed rates and are therefore exposed to fair value interest rate risk. Had interest rates been 1% (100 basis points) lower throughout the year, interest receivable would have reduced by approximately £7.3 million (2013: £5.8 million) and profit after tax by £5.8 million (2013: £4.6 million).

### Currency risk

At 31 December 2014, the Group had outstanding currency exchange contracts to sell \$174 million (2013: \$143 million) for sterling. In addition, the Group utilises option instruments which have various provisions that, depending on the spot rate at maturity, give either the Group or the counterparty the option to exercise. At 31 December 2014, the Group had outstanding currency options under which the Group may, under certain circumstances, be required to sell up to \$231 million (2013: \$97 million) for sterling. A common scenario with options of this type is that the spot price at expiry is such that neither the Group nor the counterparty chooses to exercise the option. At 31 December 2014, the Group had \$212 million (2013: \$230 million) of accounts receivable denominated in US dollars at that date, and US dollar cash and cash equivalents, and short-term deposits of \$41 million (2013: \$14 million). Thus, the Group's US dollar assets were less than currency exchange contracts and currency options outstanding at the year-end. Management assesses the volume and timing of currency exchange contracts taking into consideration both the current and expected future level of US dollar assets. Based on the predictable nature of the Group's cash flows, the Group typically has a greater value of currency exchange contracts outstanding than US dollar assets held.

At 31 December 2014, if sterling had strengthened by 10% against foreign currencies with all other variables held constant, post-tax profit for the year would have been £4.0 million lower (2013: £9.5 million lower), mainly as a result of the mix of financial instruments at respective year-ends.

## 18 Share capital

	2014 £m	2013 £m
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2013: 2,200,000,000)	1.1	1.1

	2014		2013	
	Number of shares m	Value £m	Number of shares m	Value £m
<b>Issued and fully paid</b>				
At 1 January	1,400.3	0.7	1,380.8	0.7
Allotted under employee incentive schemes	11.9	—	19.5	—
<b>At 31 December</b>	<b>1,412.2</b>	<b>0.7</b>	<b>1,400.3</b>	<b>0.7</b>

During 2014, the aggregate consideration received on issue of new share capital allotted under employee incentive schemes was £6.8 million (2013: £5.9 million).

## 19 Own shares held

	Treasury stock £m
At 1 January 2014	—
Purchase of own shares	66.9
<b>At 31 December 2014</b>	<b>66.9</b>

During the year, £66.9 million (2013: £nil) of shares were repurchased, representing 7.9 million (2013: nil) shares. At 31 December 2014, all of these shares were held as treasury stock. Own shares held have a nominal value of 0.05 pence and in total represent 0.6% of called-up share capital.

## 20 Acquisitions

Two acquisitions were made in 2014: Duolog Holdings Limited, acquired on 27 May 2014 for €13.9 million (£11.4 million), and Offspark BV, acquired on 14 November 2014 for €1.5 million (£1.2 million). The Group acquired the entire share capital of both entities, which have been accounted for as acquisitions.

Duolog, a company based in Ireland and Hungary, is a leader in design configuration and integration technology for the semiconductor industry. The acquisition strengthens the Group's IP configuration and integration capability, helping ARM Partners design and deploy system IP and manage increasing SoC integration complexity.

Offspark BV, a company based in the Netherlands, is a company providing specialised services in the field of digital security focusing on online security, secure hardware and software and (practical) cryptography.

For the above reasons, combined with the ability to hire the workforce of the companies, including the founders and the management team, the Group paid a premium for both companies, giving rise to goodwill. All intangible assets were recognised at their fair values, with the residual excess over net assets being recognised as goodwill.

# Notes to the financial statements continued

## 20 Acquisitions continued

The following table summarises the consideration and provisional fair values of the assets acquired and liabilities assumed at the date of each acquisition.

	Duolog 27 May 2014		Offspark 14 November 2014	
	£m	€m	£m	€m
Cash, accounts receivable, other current assets, property, plant and equipment	1.2	1.6	0.1	0.2
Intangible assets	1.7	2.0	1.0	1.2
Accrued and other liabilities	(0.8)	(1.0)	—	—
Loans payable	(1.2)	(1.5)	—	—
Deferred tax liabilities (net)	(0.2)	(0.3)	(0.2)	(0.3)
Net assets acquired	0.7	0.8	0.9	1.1
Goodwill	10.7	13.1	0.3	0.4
<b>Consideration</b>	<b>11.4</b>	<b>13.9</b>	<b>1.2</b>	<b>1.5</b>

The consideration for both acquisitions was paid in cash. All transaction expenses incurred by the Group have been charged to the income statement within general and administrative expenses.

From 27 May 2014 to 31 December 2014, the acquisition of Duolog contributed £1.3 million in revenue and incurred a loss of £0.7 million. If Duolog had been consolidated from 1 January 2014, the consolidated income statement would have included £3.1 million of revenue and £0.5 million of pre-tax loss. The trading results of Offspark would have had no significant impact on the results of the Group.

There were two acquisitions made in 2013: Sensinode Oy, acquired on 19 July 2013 for \$11.7 million (£7.7 million), and Geomerics Limited, acquired on 12 December 2013 for £12.3 million. The Group acquired the entire share capital of both entities, which have been accounted for as acquisitions.

Sensinode, a company based in Oulu, Finland, is a provider of software technology for the Internet of Things (IoT). Sensinode is a pioneer in software for low-cost, low-power internet-connected devices and has been a key contributor to open standards for IoT. This acquisition enables Sensinode's expertise and technology to be accessible to the ARM Partnership and through the ARM mbed project it will enable rapid deployment of new and innovative IoT applications.

Geomerics, a company based in Cambridge, UK, is a leader in lighting technology for the gaming and entertainment industries. The acquisition expands ARM's position at the forefront of the visual computing and graphics industries. Additionally, the agreement enables Geomerics to build on their existing partnerships as well as accelerate their development in the mobile market.

For the above reasons, combined with the ability to hire the workforce of both Sensinode and Geomerics, including the founders and the management team, the Group paid a premium for both companies, giving rise to goodwill. All intangible assets were recognised at their fair values, with the residual excess over net assets being recognised as goodwill.

## 20 Acquisitions continued

The following table summarises the consideration and final fair values of the assets acquired and liabilities assumed at the date of each acquisition.

	Sensinode 19 July 2013	Geomerics 12 December 2013	
	£m	\$m	£m
Cash, accounts receivable, other current assets, property, plant and equipment	0.3	0.5	0.2
Intangible assets	2.8	4.3	5.0
Accrued and other liabilities	(0.5)	(0.8)	(1.9)
Loans payable	(1.1)	(1.6)	—
Deferred tax liabilities (net)	(0.2)	(0.3)	(1.0)
Net assets acquired	1.3	2.1	2.3
Goodwill	6.4	9.6	10.0
<b>Consideration</b>	<b>7.7</b>	<b>11.7</b>	<b>12.3</b>

The consideration for both acquisitions was paid in cash. All transaction expenses incurred by the Group have been charged to the income statement within general and administrative expenses.

### Other

During 2014, the Group made a payment of £1.8 million (2013: £2.0 million) in respect of time-based and performance bonuses due as a result of the acquisition of Obsidian Software Inc in 2011. The Group also made payments of £1.4 million (2013: £0.6 million) in respect of time-based and performance bonuses due as a result of the acquisition of Prolific Inc in 2011 as well as payments of £0.3 million (2013: £nil) in respect of time-based bonuses due as a result of the acquisition of Sensinode in 2013.

## 21 Share-based payments

Since 2006, the Company has issued RSUs to employees, which are actual share awards on vesting rather than options to buy shares at a fixed exercise price.

The main RSU awards (to employees in all jurisdictions other than France) vest 25% on each anniversary over four years. RSU awards to our French employees vest 50% after two years, and then a further 25% after three and four years.

Additionally, the Company operates a DAB Plan. Under the DAB Plan, which is for directors and selected senior management within the Group, participants are required to defer 50% of any related annual bonus into shares on a compulsory basis. These shares will be deferred for three years, and then a matching award will be made depending on the achievement of an EPS performance condition over that time. This scheme was replaced after the February 2014 grant with a cash-only bonus. For details of the new scheme, see the Directors' Remuneration Report on page 40.

The Company also operates the LTIP, also for directors and selected senior management, whereby share awards are made and vest depending on the Company's TSR performance and EPS performance over the three-year performance period. Grants were made for the last time under this scheme in February 2013 and it was replaced by a new LTIP for 2014 grants onwards. For details of the new scheme, see the Directors' Remuneration Report on page 44.

# Notes to the financial statements continued

## 21 Share-based payments continued

The Company also offers SAYE schemes for UK employees and executive directors of the Group. 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. The option price for grants is set at 80% of the market share price prior to the announcement of the grant, and the right to exercise normally only arises for a six-month period once the savings have been completed. The Company also operates a savings-related option scheme for employees in the US, India, Asia Pac countries and certain European countries, namely the ESPP. The number of options granted is related to the value of savings made by the employee. The period of savings is six months, with the option price being at 85% of the lower of the market share price at the beginning and end of the scheme.

The Group has in the past issued share options under several additional schemes, whereby shares in the Company can be granted to employees and directors. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. These schemes are the UK Inland Revenue Executive Approved Share Option Plan (the "Executive Scheme"), the Unapproved Scheme (the "Unapproved Scheme"), the French Scheme and various schemes that the Company assumed on the acquisition of Artisan in 2004. Share options in these schemes are no longer granted, although the Company reserves the right to award options to employees going forward. Shares relating to these schemes have all vested in prior years and therefore there is no share-based payment charge associated with them for 2013 or 2014. All shares issued under these schemes have either lapsed or been exercised as at 31 December 2014.

As disclosed in note 4, staff expenses arising from these share-based compensation schemes of £68.5 million (2013: £59.2 million) were charged to the income statement in the year. This is in line with the Group's policies for recognition and measurement of the costs associated with these remuneration schemes as outlined in note 1b.

The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model, except for the ESPP whose fair value is the intrinsic value of the award at the date of vest. The following assumptions for each option grant during 2014 and 2013 were as follows:

Grant date	23 Jun 2014	30 Apr 2014	31 Oct 2014	16 Feb 2013	23 Jun 2013	30 Apr 2013	31 Oct 2013
Scheme	SAYE	ESPP	ESPP	ESPP	SAYE	ESPP	ESPP
Share price at grant date	£8.89	£9.095	£8.385	£9.25	£7.725	£9.96	£9.94
Exercise price	£7.344	£7.73	£7.13	£4.964	£7.9616	£5.6525	£8.449
Number of employees	520	684	892	391	350	151	605
Shares under option	651,142	280,996	361,083	330,676	210,605	35,386	228,335
Vesting period (years)	3-5	—	—	—	3-5	—	—
Expected volatility	33%-35%	—	—	—	37%-40%	—	—
Expected life (years)	3-5	—	—	—	3-5	—	—
Risk-free rate	0.5%	—	—	—	0.5%	—	—
Dividend yield	0.64%	—	—	—	0.58%	—	—
Fair value per option	£2.630-£3.180	£1.365	£1.258	£4.286	£1.828-£2.510	£4.3075	£1.491

The fair value of RSUs and DAB awards granted was estimated on the date of grant using the Black-Scholes option pricing model. As all are share awards with no exercise price, all awards have been deemed to have an exercise price of £0.0000001 in the Black-Scholes model. The fair value of LTIP awards granted in 2013 and those granted in 2014 with non-market-based performance conditions (i.e. based on EPS performance) have also been estimated using the Black-Scholes option pricing model.

## 21 Share-based payments continued

For LTIP awards with market-based performance conditions issued in 2014 the fair value was based upon Monte-Carlo simulation of the performance of the comparator companies in the FTSE 350 and the FTSE All World Technology Index (AWTI). The Monte-Carlo simulation incorporates a range of other assumptions based on the TSR comparator companies; the assumptions given below relate to the Group.

The assumptions for each grant during 2014 and 2013 were as follows:

### Black-Scholes model assumptions

Grant date	8 Feb 2014	8 Feb 2014	8 Feb 2014	8 Feb 2014	8 May 2014
Scheme	DAB	RSU	French RSU	LTIP (EPS)	RSU
Share price at grant date	8.96	8.96	8.96	8.96	8.715
Number of employees	54	2,625	114	59	149
Shares awarded	509,078	4,455,185	165,927	745,615	391,556
Vesting period (years)	3	1-4	2-4	3	1-4
Expected volatility	35%	31%-36%	31%-36%	35%	31%-36%
Expected life (years)	3	1-4	2-4	3-5	1-4
Risk-free rate	0.5%	0.5%	0.5%	0.5%	0.5%
Dividend yield	0.64%	0.64%	0.64%	0.64%	0.65%
Fair value per share	£8.791	£8.735-£8.903	£8.735-£8.847	£8.791	£8.490-£8.658

Grant date	8 May 2014	13 Aug 2014	13 Aug 2014	12 Nov 2014	12 Nov 2014
Scheme	French RSU	RSU	French RSU	RSU	French RSU
Share price at grant date	8.715	8.95	8.95	8.745	8.745
Number of employees	6	170	2	333	2
Shares awarded	7,089	380,617	6,882	755,115	2,092
Vesting period (years)	2-4	1-4	2-4	1-4	2-4
Expected volatility	31%-36%	29%-35%	30%-35%	29%-34%	30%-34%
Expected life (years)	2-4	1-4	2-4	1-4	2-4
Risk-free rate	0.5%	0.5%	0.5%	0.5%	0.5%
Dividend yield	0.65%	0.68%	0.68%	0.70%	0.70%
Fair value per share	£8.490-£8.602	£8.709-£8.889	£8.709-£8.828	£8.504-£8.684	£8.504-£8.623

### Monte-Carlo model assumptions

Grant date	8 Feb 2014	8 Feb 2014
Scheme	LTIP (FTSE 350)	LTIP (FTSE AWTI)
Share price at grant date	£8.96	£8.96
Number of employees	59	59
Shares awarded	372,793	372,793
Vesting period (years)	3	3
Expected volatility	35%	35%
Expected life (years)	3-5	3-5
Risk-free rate	1.0%	1.0%
Dividend yield	0%	0%
Fair value per share	£6.952	£7.560

# Notes to the financial statements continued

## 21 Share-based payments continued

### Black-Scholes model assumptions

Grant date	8 Feb 2013	8 Feb 2013	8 Feb 2013	8 Feb 2013	8 May 2013	8 May 2013
Scheme	DAB	RSU	French RSU	LTIP	RSU	French RSU
Share price at grant date	£9.245	£9.245	£9.245	£9.245	£10.46	£10.46
Number of employees	53	2,207	93	55	102	3
Shares awarded	466,174	7,686,539	286,900	742,469	258,224	6,645
Vesting period (years)	3	1-4	2-4	3	1-4	2-4
Expected volatility	37%	30%-37%	35%-37%	37%	30%-38%	34%-38%
Expected life (years)	3	1-4	2-4	3	1-4	2-4
Risk-free rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Dividend yield	0.49%	0.49%	0.49%	0.49%	0.43%	0.43%
Fair value per share	£9.111	£9.067-£9.200	£9.067-£9.155	£9.111	£10.282-£10.415	£10.282-£10.37

Grant date	13 Aug 2013	13 Aug 2013	13 Aug 2013	12 Nov 2013	12 Nov 2013
Scheme	RSU	French RSU	LTIP	RSU	French RSU
Share price at grant date	£8.89	£8.89	£8.89	£9.495	£9.495
Number of employees	134	4	1	252	9
Shares awarded	318,934	6,347	11,280	494,746	16,478
Vesting period (years)	1-4	2-4	3	1-4	2-4
Expected volatility	31%-36%	32%-36%	36%	31%-36%	31%-36%
Expected life (years)	1-4	2-4	3	1-4	2-4
Risk-free rate	0.5%	0.5%	0.5%	0.5%	0.5%
Dividend yield	0.55%	0.55%	0.55%	0.52%	0.52%
Fair value per share	£8.69-£8.836	£8.69-£8.787	£8.738	£9.30-£9.446	£9.30-£9.397

The expected volatility was primarily based upon historical volatility adjusted for past one-time events that are not expected to re-occur.

The expected life is the expected period to exercise.

A reconciliation of option and share award movements over the year to 31 December 2014 is shown below. Share awards do not have an exercise price and therefore the reconciliation below shows only the number of awards, with no corresponding weighted average exercise prices.

	2014			2013		
	Options Number	Weighted average exercise price	RSUs/LTIP/DAB Number	Options Number	Weighted average exercise price	RSUs/LTIP/DAB Number
Outstanding at 1 January	1,969,919	£3.385	20,227,656	3,738,922	£1.994	23,255,834
Granted	1,293,221	£7.368	9,666,289	805,002	£6.765	14,972,806
Forfeited	(90,322)	£5.197	(667,923)	(57,969)	£4.257	(974,255)
Lapsed	(29,458)	£0.725	—	(47,313)	£0.575	—
Exercised	(1,568,291)	£4.329	(10,328,742)	(2,468,723)	£2.414	(17,026,729)
<b>Outstanding at 31 December</b>	<b>1,575,069</b>	<b>£5.661</b>	<b>18,897,280</b>	<b>1,969,919</b>	<b>£3.385</b>	<b>20,227,656</b>
<b>Exercisable at 31 December</b>	<b>4,283</b>	<b>£4.464</b>	<b>—</b>	<b>392,451</b>	<b>£0.723</b>	<b>—</b>

## 21 Share-based payments continued

The weighted average share price at the date of exercise or vest of the above share options and awards was £8.94 (2013: £9.29). The following options over ordinary shares were in existence at 31 December:

### 2014

Exercise price (£)	Number outstanding	Weighted average exercise price £	Weighted average remaining life Expected Years	Weighted average remaining life Contractual Years
Outstanding options:				
1.948 – 7.96	1,575,069	5.66	2.10	2.35
<b>Total</b>	<b>1,575,069</b>	<b>5.66</b>	<b>2.10</b>	<b>2.35</b>

#### Outstanding RSU/LTIP/DAB awards:

0.00 (RSUs)	14,702,277	—	1.26	1.26
0.00 (LTIP)	2,800,003	—	1.36	1.36
0.00 (DAB)	1,395,000	—	1.06	1.06
<b>Total</b>	<b>18,897,280</b>	<b>—</b>	<b>1.26</b>	<b>1.26</b>

### 2013

Exercise price (£)	Number outstanding	Weighted average exercise price £	Weighted average remaining life Expected Years	Weighted average remaining life Contractual Years
Outstanding options:				
0.7 – 0.854	571,846	0.76	0.49	0.78
1.01 – 1.055	19,166	1.04	0.52	1.05
1.25	1,360	1.25	0.04	0.08
1.948 – 7.96	1,377,547	4.51	2.00	2.25
<b>Total</b>	<b>1,969,919</b>	<b>3.38</b>	<b>1.55</b>	<b>1.81</b>

#### Outstanding RSU/LTIP/DAB awards:

0.00 (RSUs)	16,792,567	—	1.20	1.20
0.00 (LTIP)	2,054,203	—	1.12	1.12
0.00 (DAB)	1,380,886	—	1.06	1.06
<b>Total</b>	<b>20,227,656</b>	<b>—</b>	<b>1.18</b>	<b>1.18</b>



# Notes to the financial statements continued

## 22 Capital and other financial commitments

	2014 £m	2013 £m
Contracts placed for future capital expenditure not provided for in the financial statements	<b>2.9</b>	<b>9.8</b>
Other financial commitments (expenditure on investments)	<b>5.4</b>	—

Included in the amount for 2013 is £9.1 million of equipment relating to the expansion of the US high-performance computing cluster.

## 23 Operating lease commitments – minimum lease payments

At 31 December 2014, the Group had commitments under non-cancellable operating leases as follows:

	2014			2013		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:						
Within one year	<b>11.6</b>	<b>5.3</b>	<b>16.9</b>	8.5	18.3	26.8
Later than one year and less than five years	<b>31.7</b>	—	<b>31.7</b>	23.1	5.3	28.4
After five years	<b>9.3</b>	—	<b>9.3</b>	9.0	—	9.0
At 31 December	<b>52.6</b>	<b>5.3</b>	<b>57.9</b>	<b>40.6</b>	<b>23.6</b>	<b>64.2</b>

The Group leases office buildings and EDA tools software under non-cancellable operating lease agreements. The remaining lease terms are between one and nine years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

## 24 Financial contingencies

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

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

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

## 25 Related party transactions

During the year ended 31 December 2014, the Group incurred subscription costs of £nil from Linaro Limited ("Linaro"), an associated company of the Group, (2013: £7.0 million, representing ARM's committed aggregate contributions to Linaro for a period of two years). In respect of the subscription fees, the Group was invoiced £4.0 million during the year to 31 December 2014 (2013: £4.3 million). As at 31 December 2014, £1.1 million (2013: £1.0 million) was owing to Linaro.

In addition, the Group provided consulting and other services to Linaro amounting to £1.3 million (2013: £1.6 million). All fees have been charged in accordance with the terms of the agreement. As at 31 December 2014, £0.3 million (2013: £0.3 million) was owed to the Group.

Further information relating to Linaro is disclosed in note 27.

Key management compensation is disclosed in note 3.

There were no other related party transactions during 2014 which require disclosure.

## 26 Post-balance sheet events

After the year-end, the directors proposed payment of a final dividend in respect of 2014 of 4.5 pence per share. Subject to shareholder approval, the final dividend will be paid on 15 May 2015 to shareholders on the register on 24 April 2015. The final dividend has not been recognised as a distribution during the year ended 31 December 2014.

## 27 Principal subsidiaries, associates, and joint ventures

### Subsidiaries

Details of principal subsidiary undertakings which, in the opinion of the directors, principally affect the figures shown in the Group's accounts are shown below. Not all subsidiaries are included as the list would be excessive in length. A full list is filed in the Group's Annual Return. All investments are indirectly held unless otherwise shown.

Name of undertaking	Country of registration	Principal activity	Proportion of total nominal value of issued shares held
ARM Limited	England and Wales	Marketing, research and development of RISC-based microprocessors and graphics IP.	100*
ARM Inc.	US	Marketing, research and development of RISC-based microprocessors and physical IP.	100
ARM France SAS	France	Marketing, research and development of RISC-based microprocessors and physical IP.	100
ARM Norway AS	Norway	Research and development of graphics IP.	100
ARM Embedded Technologies Pvt. Limited	India	Marketing, research and development of RISC-based microprocessors and physical IP.	100
ARM Electronic Technology (Shanghai) Co. Limited	PR China	Marketing, research and development of RISC-based microprocessors and graphics IP.	100

\* The Company itself owns less than 1% of the share capital of ARM Limited, the remaining shares are held indirectly through ARM Finance UK Limited and ARM Finance UK Three Limited. Both ARM Finance UK Limited and ARM Finance UK Three Limited are 100% owned within the Group.

# Notes to the financial statements continued

## 27 Principal subsidiaries, associates, and joint ventures continued

### Associate

During 2010, the Group became a founder member of Linaro, a not-for-profit engineering company created to foster innovation in the Linux community. Linaro (a company incorporated in the UK) is a company limited by guarantee and as such has no shareholders. The Group controls only 25% of the board and therefore considers Linaro to be an associate rather than a subsidiary. The Group has not recognised any associate profit or loss, or net assets on the basis that the entity is not-for-profit.

### Joint venture

In 2012, the Group invested £7.5 million (\$12.0 million) in a joint venture, Trustonic Limited (a company incorporated in the UK), representing a 40% shareholding. With the establishment of industry standards and demand for security enhanced services the focus of Trustonic is to accelerate the wide deployment of secure, smart devices. During 2013, the Group invested a further £3.7 million (€4.4 million) into the joint venture, maintaining the 40% shareholding.

	2014 £m	2013 £m
Investment in joint venture		
At 1 January	6.5	6.8
Investment	—	3.7
Share of results for the period	(3.5)	(4.0)
<b>At 31 December</b>	<b>3.0</b>	<b>6.5</b>

The Group's share of the results of the joint venture, and its aggregated assets and liabilities, are as follows:

	Current assets £m	Non-current assets £m	Current liabilities £m	Non-current liabilities £m	Currency translation £m	Income £m	Expenses £m	Tax £m	Loss for the year £m
Trustonic Limited									
<b>At 31 December 2014</b>	<b>2.6</b>	<b>4.6</b>	<b>(4.2)</b>	<b>(0.3)</b>	<b>0.3</b>	<b>3.2</b>	<b>(6.9)</b>	<b>0.2</b>	<b>(3.5)</b>
<b>At 31 December 2013</b>	<b>3.9</b>	<b>6.5</b>	<b>(3.9)</b>	<b>—</b>	<b>(0.1)</b>	<b>2.5</b>	<b>(6.7)</b>	<b>0.2</b>	<b>(4.0)</b>

The Group's share of joint venture capital commitments amount to £0.2 million at 31 December 2014 (2013: £0.1 million).

# Company balance sheet/UK GAAP

At 31 December	Note	2014 £m	2013 £m
<b>Fixed assets</b>			
Investments	4	697.1	653.3
<b>Current assets</b>			
Debtors	5	0.5	1.5
Cash at bank and in hand		1.1	0.7
		1.6	2.2
Creditors: amounts falling due within one year	6	(167.0)	(46.0)
<b>Net current liabilities</b>		<b>(165.4)</b>	<b>(43.8)</b>
<b>Total assets less current liabilities</b>		<b>531.7</b>	<b>609.5</b>
<b>Net assets</b>		<b>531.7</b>	<b>609.5</b>
<b>Capital and reserves</b>			
Called-up share capital	7	0.7	0.7
Share premium account	8	24.9	18.1
Share option reserve	8	61.4	61.4
Profit and loss account	8	444.7	529.3
<b>Total shareholders' funds</b>	9	<b>531.7</b>	<b>609.5</b>

The financial statements on pages 117 to 124 were approved by the Board of directors on 17 February 2015 and were signed on its behalf by:

Simon Segars,  
Chief Executive Officer

Tim Score,  
Chief Financial Officer

# Notes to the financial statements/UK GAAP

## I Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the UK. A summary of the more important accounting policies, which have been consistently applied and reviewed by the Board of directors in accordance with Financial Reporting Standard (FRS) 18 "Accounting policies", is set out below:

**Basics of accounting** The financial statements are prepared on a going concern basis and in accordance with the historical cost convention.

**Investments in subsidiaries** Investments in subsidiaries are initially recorded at cost. Where an acquisition satisfies the provisions of section 612 of the Companies Act 2006 for merger relief, the investment is stated at the nominal value of shares issued plus the fair value of any other consideration.

**Cash flow statement** The Company has not presented a separate cash flow statement. The cash flows for the Company are included within the consolidated financial statements.

**Foreign currency** Transactions denominated in foreign currencies have been translated into sterling at actual rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at the closing rates of exchange at the balance sheet date. Exchange differences have been included in operating profit.

**Taxation** Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**Financial instruments** The Company does not have any financial instruments, other than intercompany creditors and debtors, and cash. Due to the short-term nature of these balances, the Company considers the fair value of these items to equal the carrying value. Because the Company is included in the consolidated financial statements of the ARM Holdings plc Group which are publicly available, and the financial disclosures required by FRS 29 are in note 17 of those financial statements, no disclosure has been presented in these financial statements.

**Share schemes** The Company issues equity-settled share-based payments, including an LTIP, to certain employees of subsidiary undertakings. In accordance with FRS 20, equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model or, where appropriate, a Monte-Carlo simulation. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the accounts of the subsidiary companies on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

The Company operates SAYE schemes in the UK and an ESPP in the US, India, Asia Pac countries and certain European countries. Options under the SAYE scheme were at a 20% discount to market price of the underlying shares on the date of announcement of the scheme. The UK SAYE schemes are approved by the Inland Revenue, which stipulates that the saving period must be at least 36 months.

The Company has taken advantage of the exemption available, and has applied the provisions of FRS 20 only to those options granted after 7 November 2002 and which were outstanding at 31 December 2004. The Company does not have any employees and as such, in accordance with UITF 44, all share-based payments have been recorded as capital contributions to all subsidiaries. The Company recharges the relevant amount of the share-based payments to its US subsidiary. Consequently, the amount recharged is offset against the carrying value of its investments.

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

**Treasury shares** The Company has a share buyback programme under which the Company is able to purchase its own shares and hold them as treasury shares. These shares will be used to satisfy employee share awards. In accordance with FRS 25, the Company recognises these shares at cost as a deduction in arriving at shareholders' funds.

**Dividends** A liability is recorded for a dividend when the dividend is approved by the Company's shareholders. Interim dividends are recognised as a distribution when paid.

**Deferred tax** Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax is measured at the average rates that are expected to apply in the period in which the timing difference is expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

## 2 Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the parent Company's profit and loss account has not been included in these financial statements. The parent Company's loss after taxation, including dividends receivable and before dividends payable was £0.1 million (2013: £1.5 million). The Company has no employees; all three executive directors (as at 31 December 2014) have contracts of service with ARM Limited, a subsidiary of the Company. The emoluments of two of these directors are paid by ARM Limited, and one of the directors is paid by ARM Inc, the details of which are disclosed in the Directors' Remuneration Report within this Annual Report. Audit fees are disclosed in note 5 to the consolidated financial statements on page 91.

## 3 Dividends paid and proposed

	2014 £m	2013 £m
Final dividend paid of 3.60 pence per ordinary share in respect of 2013 (2013: 2.83 pence in respect of 2012)	50.7	39.5
Interim dividend paid of 2.52 pence (2013: 2.10 pence) per ordinary share	35.4	29.4
	<b>86.1</b>	<b>68.9</b>

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2014 of 4.5 pence per share which will absorb an estimated £64 million of shareholders' funds. It will be paid on 15 May 2015 to shareholders who are on the register of members on 24 April 2015, subject to approval by the shareholders at the 2015 AGM.

## 4 Investments

The cost and net book value of interests in Group undertakings held by the Company was £697.1 million at 31 December 2014 and £653.3 million at 31 December 2013. The Company took advantage of merger relief in 2004 and did not record the premium on the issue of shares for the acquisition of Artisan Components Inc. (now ARM Inc.), and thus did not record the premium within the value of the investment in the Company balance sheet at that time.

	Investments in subsidiary undertakings £m
<b>Cost and net book value</b>	
At 1 January 2014	653.3
Additions	—
Capital contributions arising from share-based payments	68.5
Recharge to subsidiary of share-based payments	(24.7)
<b>At 31 December 2014</b>	<b>697.1</b>

Where options and awards over the Company's shares have been issued to the employees of subsidiary undertakings, the fair value of employee services performed (equal to the share-based payments) has been recorded as a capital contribution. The Company recharges the relevant amount of the share-based payments to its US subsidiary. Consequently, the amount recharged is offset against the carrying value of its investments.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

# Notes to the financial statements/UK GAAP continued

## 4 Investments continued

### 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	less than 0.01%*
ARM IP Limited	England and Wales	Ordinary £1 shares	100%
ARM Finance UK Limited	England and Wales	Ordinary \$1 shares	100%
ARM Technology Investments Limited	England and Wales	Ordinary £1 shares	100%

\* The Company itself owns less than 1% of the share capital of ARM Limited, the remaining shares are held indirectly through ARM Finance UK Limited and ARM Finance UK Three Limited. Both ARM Finance UK Limited and ARM Finance UK Three Limited are 100% owned within the Group.

The principal activity of ARM Limited is the marketing, research and development of RISC-based microprocessors and graphics IP. The remaining shares in ARM Limited were held at the balance sheet date by ARM Finance UK Limited (AFL) and ARM Finance UK Three Limited (AFL3) (with AFL3 itself being an indirect wholly owned subsidiary of AFL). The principal activities of both AFL and AFL3 are as intermediate holding companies. The principal activity of ARM IP Limited is to act as a holding company for some of the Group's patents. The principal activity of ARM Technology Investments Limited is to act as a holding company for some of the Group's investments.

## 5 Debtors

	2014 £m	2013 £m
Prepayments and accrued income	0.1	1.2
Deferred tax assets*	0.4	0.3
	<b>0.5</b>	<b>1.5</b>

\* A deferred tax asset in respect of timing differences arising on losses has been recognised, and it is expected that profits will be available in the future to offset these losses.

## 6 Creditors: amounts falling due within one year

	2014 £m	2013 £m
Amounts owed to Group undertakings	166.4	45.7
Accruals	0.6	0.3
	<b>167.0</b>	<b>46.0</b>

## 7 Called-up share capital

	2014 £m	2013 £m
<b>Authorised</b>		
2,200,000,000 ordinary shares of 0.05 pence each (2013: 2,200,000,000)	<b>1.1</b>	<b>1.1</b>
<b>Allotted, called-up and fully paid</b>		
1,412,160,836 ordinary shares of 0.05 pence each (2013: 1,400,263,804)	<b>0.7</b>	<b>0.7</b>

11,897,032 ordinary shares of 0.05 pence each were issued in the year for cash consideration of £6.8 million (2013: 19,495,454 shares for cash consideration of £5.9 million) as a result of the exercise of share options at various times during the year.

## 7 Called-up share capital continued

### Share options and awards

The Company had the following options and awards outstanding over ordinary shares of 0.05 pence at 31 December 2014:

	Year of grant	Number of options	Range of exercise prices £	Weighted average exercise price £	Latest date of exercise
<b>SAYE</b>	2010	116,896	1.948	1.948	31 January 2016
	2011	37,863	4.464	4.464	31 January 2017
	2012	598,547	3.9616	3.9616	31 January 2018
	2013	184,824	7.96	7.96	31 January 2019
	2014	636,939	7.344	7.344	31 January 2020
<b>Total options</b>		<b>1,575,069</b>	<b>1.948-7.96</b>	<b>5.661</b>	

	Year of grant	Number of share awards	Latest vest date
<b>RSU</b>	2011	1,269,797	12 November 2015
	2012	1,455,245	12 November 2016
	2013	5,742,475	12 November 2017
	2014	5,609,411	12 November 2018
		14,076,928	
<b>French RSU</b>	2011	73,274	12 November 2015
	2012	63,742	12 November 2016
	2013	308,853	12 November 2017
	2014	179,480	12 November 2018
		625,349	
<b>LTIP</b>	2012	741,921	8 February 2015
	2013	623,796	13 February 2016
	2014	1,434,286	8 February 2017
		2,800,003	
<b>DAB</b>	2012	556,553	8 February 2015
	2013	348,211	8 February 2016
	2014	490,236	8 February 2017
		1,395,000	
<b>Total awards</b>		<b>18,897,280</b>	
<b>Total options and awards</b>		<b>20,472,349</b>	



# Notes to the financial statements/ UK GAAP continued

## 7 Share option and awards continued

Since 2006, the Company has issued RSUs to employees, which are actual share awards on vesting rather than options to buy shares at a fixed exercise price. The main RSU awards (to employees in all jurisdictions other than France) vest 25% on each anniversary over four years. RSU awards to our French employees vest 50% after two years, and then a further 25% after three and four years.

Additionally, the Company operates a DAB Plan. Under the DAB Plan, which is for directors and selected senior management within the Group, participants are required to defer 50% of any related annual bonus into shares on a compulsory basis. These shares will be deferred for three years, and then a matching award will be made depending on the achievement of an EPS performance condition over that time. This scheme was replaced after the February 2014 grant and replaced with a cash-only bonus. For details of the new scheme, see the Directors' Remuneration Report on page 40.

The Company also operates the LTIP, also for directors and selected senior management, whereby share awards are made and vest depending on the Company's TSR performance and EPS performance over the three-year performance period. Grants were made for the last time under this scheme in February 2013 and it has been replaced by a new LTIP for 2014 grants onwards. For details of the new scheme, see the Directors' Remuneration Report on page 44.

The Company also offers SAYE schemes for UK employees and executive directors of the Group. 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. The option price for grants is set at 80% of the market share price prior to the announcement of the grant, and the right to exercise normally only arises for a six-month period once the savings have been completed. The Company also operates a savings-related option scheme for employees in the US, India, Asia Pac countries and certain European countries, namely the ESPP. The number of options granted is related to the value of savings made by the employee. The period of savings is six months, with the option price being at 85% of the lower of the market share price at the beginning and end of the scheme.

The Group has in the past issued share options under several additional schemes, whereby shares in the Company can be granted to employees and directors. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. These schemes are the UK Inland Revenue Executive Approved Share Option Plan (the "Executive Scheme"), the Unapproved Scheme (the "Unapproved Scheme"), the French Scheme and various schemes that the Company assumed on the acquisition of Artisan in 2004. Share options in these schemes are no longer granted, although the Company reserves the right to award options to employees going forward. Shares relating to these schemes have all vested in prior years and therefore there is no share-based payment charge associated with them for 2013 or 2014. All shares issued under these schemes have either lapsed or been exercised as at 31 December 2014.

For disclosures relating to the grants in the year and fair value assumptions, reconciliations of opening to closing option balances, and related items, please refer to note 21 in the consolidated financial statements.

## 8 Reserves

	Share premium account £m	Share option reserve £m	Profit and loss reserve £m
At 1 January 2014	18.1	61.4	529.3
Purchase of treasury shares	—	—	(66.9)
Premium on issue of shares on exercise of share options	6.8	—	—
Credit in respect of capital contributions arising from share-based payments	—	—	68.5
Loss attributable to shareholders	—	—	(0.1)
Equity dividends payable	—	—	(86.1)
<b>At 31 December 2014</b>	<b>24.9</b>	<b>61.4</b>	<b>444.7</b>

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

## 8 Reserves continued

The Company considers the share option reserve and share premium account as non-distributable. Within the profit and loss reserve are credits in respect of FRS 20 employee share-based payments in respect of services performed by employees of subsidiary undertakings and recorded as a capital contribution. The Company also considers these credits as non-distributable. In addition, the historic treatment of certain conditional shares has been changed. As a result, £21 million of the opening profit and loss reserve has been reclassified from distributable to non-distributable. At 31 December 2014, approximately £179 million of the profit and loss reserve is deemed distributable (2013: £324 million).

During 2014, the Company re-commenced its share buy back programme to supplement the payment of dividends to shareholders, purchasing 7.9 million shares at a cost of £66.9 million. At 31 December 2014, all of these shares were still held by the Company. Offset within the profit and loss reserve, therefore, is an amount of £66.9 million (2013: £nil) representing the cost of own shares held. These shares are expected to be used for the benefit of the Group's employees and directors to satisfy share options, restricted stock units (RSUs) and conditional share awards in future periods.

The quantum and frequency of share repurchases is not predetermined and will take into account prevailing market conditions, the short- to medium-term cash needs of the business and the level of employee share-based remuneration going forward.

## 9 Reconciliation of movements in shareholders' funds

	2014 £m	2013 £m
Loss attributable to shareholders	(0.1)	(1.5)
Equity dividends payable	(86.1)	(68.9)
	(86.2)	(70.4)
New share capital issued	6.8	5.9
Purchase of treasury shares	(66.9)	—
Credit in respect of capital contributions arising from share-based payments	68.5	59.2
Net reduction to shareholders' funds	(77.8)	(5.3)
Opening shareholders' funds	609.5	614.8
<b>Closing shareholders' funds</b>	<b>531.7</b>	<b>609.5</b>

# Notes to the financial statements/ UK GAAP continued

## 10 Capital commitments

The Company had no capital commitments at 31 December 2014 and 2013.

## 11 Financial commitments and contingencies

At 31 December 2014 and 2013, the Company had no annual commitments under non-cancellable operating leases and no contingencies.

## 12 Related party transactions

The Company has taken advantage of the exemption from disclosure available to parent companies under FRS 8 "Related party disclosures", where transactions and balances between wholly owned Group entities have been eliminated on consolidation.

## 13 Post-balance sheet events

After the year-end, the directors proposed payment of a final dividend in respect of 2014 of 4.5 pence per share. Subject to shareholder approval, the final dividend will be paid on 15 May 2015 to shareholders on the register on 24 April 2015. The final dividend has not been recognised as a distribution during the year ended 31 December 2014.

# Independent auditors' report to the members of ARM Holdings plc

## Report on the Company financial statements

### *Our opinion*

In our opinion, ARM Holdings plc's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### *What we have audited*

ARM Holdings plc's financial statements comprise:

- the Company balance sheet as at 31 December 2014;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Other required reporting

### *Consistency of other information*

### *Companies Act 2006 opinion*

In our opinion, the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

### *ISAs (UK & Ireland) reporting*

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

### *Adequacy of accounting records and information and explanations received*

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

# Independent auditors' report to the members of ARM Holdings plc continued

## Directors' remuneration

### *Directors' Remuneration Report – Companies Act 2006 opinion*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### *Other Companies Act 2006 reporting*

Under the Companies Act 2006, we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### *Our responsibilities and those of the directors*

As explained more fully in the Statement of directors' responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### *What an audit of financial statements involves*

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Other matter

We have reported separately on the Group financial statements of ARM Holdings plc for the year ended 31 December 2014.

Charles Bowman (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

London  
17 February 2015

# Glossary

<b>Apps</b>	Application software that runs within the chip.
<b>ARM7/9/11</b>	ARM7 processor was one of ARM's first commercial products. ARM9 and ARM11 processors followed later.
<b>ARMv8</b>	Latest family of ARM processor designs.
<b>big.LITTLE</b>	Combination of two different ARM processors on a single chip: one (big) that delivers high-performance when needed with the other (LITTLE) running most of the time, enabling long battery-life.
<b>CAGR</b>	Compound annual growth rate.
<b>Cortex</b>	ARM's latest family of processors.
<b>DTV</b>	Digital TV.
<b>Ecosystem</b>	Community of companies that work with ARM, including semiconductor companies, foundries, OEMs and software providers.
<b>Fabless semiconductor company</b>	A fabless semiconductor company designs computer chips. These chips are typically manufactured by a foundry. For example MediaTek, Marvell and Qualcomm.
<b>Foundry</b>	A foundry is a specialist company that manufactures computer chips on behalf of fabless semiconductor companies. For example TSMC and UMC.
<b>Intellectual Property (IP)</b>	ARM designs technology for use in computer chips. The general term for the products that are designs only, or are creations of the mind, is intellectual property.
<b>Internet of Things (IoT)</b>	An increasing variety of digital devices are being connected to the internet either directly or indirectly via a smartphone. From pedometers to thermostats to streetlights.
<b>Licence</b>	A licence is a legal agreement that confers certain rights to our Partners. They pay an upfront fee, which is reported as "licence revenue".
<b>LTE</b>	Long Term Evolution (or 4G) is the next generation wireless standard for mobile phones. It is optimised for data streaming allowing internet connections at speeds similar to broadband in the home.
<b>Mali</b>	ARM's family of 3D graphics processors.
<b>Microcontroller (MCU)</b>	A microcontroller is a general-purpose computer chip which has been or can be used in many applications. Most ARM processors are used in either an SoC or MCU.
<b>Original Equipment Manufacturer (OEM)</b>	An OEM manufactures consumer products such as TVs or mobile phones. For example Apple, HTC and LG.
<b>Partner</b>	A Partner is a licensee of ARM's processor technology.
<b>Physical IP</b>	Design of the building blocks used in the implementation of an SoC design.
<b>Processor</b>	Design of the brain of the computer chip.
<b>Processor Optimisation Pack (POP)</b>	Physical IP components that have been selected and optimised to implement a processor on a specific foundry's manufacturing process.
<b>Royalty</b>	ARM receives a royalty on every chip that contains ARM technology. The royalty is usually a percentage of the selling price of the chip and is reported as "royalty revenue".
<b>STB</b>	Set-top box.
<b>System-on-Chip (SoC)</b>	An SoC is a computer chip where multiple functions have been integrated into a single chip. Most ARM processors are used in either an SoC or MCU.

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# Key shareholder information

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Public company limited by shares

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Our website contains information for  
shareholders, including regular strategic,  
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[www.arm.com/ir](http://www.arm.com/ir)



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## Auditors' statement

The auditors' report on the financial statements and the auditors' statement under section 496 of the Companies Act on whether the information given in Strategic Report and Directors' report (for the financial year ended 31 December 2014) is consistent with the Group financial statements were both unqualified and can be found on page 62 of the Governance and Financial Report.

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