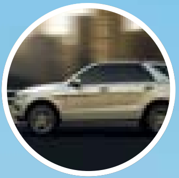
ARM Holdings plc
Annual Report 2015

Governance and Financial Report

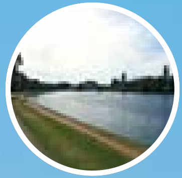
ARM's technology is shaping the way we all live our lives; in the home, as we travel, at school or work, and as we have fun with our friends

Automotive autonomy
Cars are becoming mobile computing platforms. More sensors and cameras are being included to assist the driver with lane detection, reading roadside signage and identifying potential hazards or people crossing the road. In time, driver assistance may lead to fully automated vehicles.



Smart construction
Smart construction – building techniques are being enhanced by embedding smart sensors into the fabric of buildings as they are being built. Sensors are detecting the temperature of concrete as it sets, the tension on rebars to ensure the strain is within tolerance, and whether vibration of the site could damage nearby structures.

Environmental monitoring
Our countryside and waterways are invaluable resources for food, transport and recreation as well as providing a habitat for wildlife. Digital monitoring of the quality of air and water helps to ensure that we are able to protect these resources for years to come.



ARM Holdings plc
Governance and Financial Report 2015

Governance

Financial Report

Glossary and Group directory

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/reporting2015**

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/reporting2015**

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**

ARM's strength is in the high calibre of its people and in the way in which they behave; fairly, honestly and with integrity.

Chairman's introduction
Our commitment to a strong and effective governance system

Stuart Chambers
Chairman

This report explains the Board's continued commitment to maintaining excellent corporate governance, corporate responsibility and the highest ethical standards. The Chairman is responsible for leading the Board in promoting effective governance across our company, an activity which is integral to ensuring that we remain successful and sustainable whilst delivering on our strategic objectives.

Dear shareholder

I would like to welcome you to ARM's 2015 Governance and Financial Report. It is now two years since I joined the Board and took over the role of Chairman, and in that time the Board has experienced significant change in its composition, as we position ARM to meet its short- and long-term strategic objectives. In this introduction, I outline the progress we have made during 2015 against the priority areas that we identified during my first year as Chairman in 2014, and our plans for the future.

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. This year, the first in which we are required to report against the updated UK Corporate Governance Code (September 2014) (the Code), we have taken the opportunity to restructure the Corporate Governance section of our report to align more closely with the main principles of the Code.

For more information see:

Leadership	Page 8
Effectiveness	Page 10
Accountability	Page 12
Relations with shareholders	Page 16
Remuneration	Page 25

Our Strategy

The Board sets the Group's long-term strategy and monitors, challenges and supports the work of the Executive Committee in delivering that strategy.

During 2015, the Board has built on the work we undertook during 2014 on defining our short- and long-term strategic priorities at this important stage in the Group's development. We held two strategy-focused meetings this year. The Board has spent time considering how best to maintain and increase our growth in our core markets as well as accelerating gains in our share of new markets and emerging technologies, which will be the cornerstone of ARM's future success and long-term growth. In our 2014 Annual Report we identified these areas as including the Internet of Things (IoT), efficient networking, ARM-powered servers and security applications, amongst others. You can find more detail on ARM's strategy and how we are delivering it on pages 9 to 23 of the Strategic Report.

Our values

ARM's strength is in the high calibre of its people, and in the way in which they behave; fairly, honestly and with integrity. We ask all our employees to embody ARM's three core beliefs: encouraging teamwork, driving innovation and creativity, and helping everyone within the Group to reach their full potential. Each year all employees are required to confirm that they have read and understood the Group's Code of Business Conduct and Ethics, which includes our Human Rights Policy. We also ensure that employees receive regular training on relevant legislation such as the UK Bribery Act 2010 and global competition laws.

Our sustainability values are of great importance to the way in which we work. Full details of our Corporate Responsibility (CR) strategy and achievements can be found in the CR report (which does not form part of this report) at www.arm.com/CR and a summary of highlights from the year are included in the CR section of the Strategic Report on page 44. In 2015, we are continuing to offer the Annual Report as two documents; firstly, a Strategic Report which contains information about ARM, how we make money and how we run the business. It includes an overview of our main markets, strategy, business model, key performance indicators and main areas of risk. The Governance and Financial Report gives more detail on governance at ARM and our full accounts. We believe that these two documents together fulfil current best practice guidelines and provide our stakeholders with a range of reporting options to suit their needs. As ever we welcome any further feedback and you can contact us via the investor relations website at www.arm.com/ir.

Chairman's introduction continued…

Our Directors

2015 has been a year of significant change in the composition of ARM's Board of Directors. On 30 June we said farewell to our Chief Financial Officer, Tim Score, after 13 years of dedicated service. During his tenure Tim oversaw a sustained increase in ARM's revenues, profits and returns, and I would like to recognise Tim's great contribution to ARM over the years. We were pleased to welcome Chris Kennedy as Chief Financial Officer on 1 September. Chris brings with him a wealth of international experience gained from over 20 years spent in senior financial roles across a broad range of sectors, most recently at easyJet plc.

As announced earlier in the year, on 31 December Kathleen O'Donovan retired from her position on the Board after a tenure of nine years. Once again, I would like to thank Kathleen for her excellent contribution to the ARM Board over the past nine years and in particular for her exceptional leadership of the Audit Committee. We wish her well for the future. Andy Green has succeeded Kathleen as Senior Independent Director.

On 1 September, we welcomed two new non-executive directors. Lawton Fitt fulfils the role of financial expert in accordance with the Sarbanes-Oxley Act 2002 (US) and assumed the position of Chairman of the Audit Committee upon Kathleen O'Donovan's retirement. Lawton currently serves on the boards of several US-listed companies and has recent and relevant financial experience gained during her career in investment banking at Goldman Sachs and as Chair of the Audit Committee at Ciena Corporation.

Stephen Pusey was most recently Chief Technology Officer at Vodafone Group plc, retiring at its AGM in 2015. Prior to joining Vodafone, Stephen held the positions of Executive Vice President and President Nortel Networks EMEA, having joined Nortel in 1982. He brings with him extensive experience in the technology sector. You can read more about the process by which we appointed Lawton and Stephen in the Nomination Committee report on pages 23 to 24.

Following these changes, and the addition of John Liu to the Board which we reported in December 2014, the composition of our Board reflects a strong 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.

Philip Davis took over the role of Company Secretary in addition to his responsibilities as General Counsel, following the retirement of Patricia Alsop in May 2015. I would like to thank Patricia for her dedication and support during her 12 years at ARM.

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

Our governance framework

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

› organisation, structure and processes;

› the internal control framework; and

› independent assurance.

The Board and its committee structure are the mechanism through which we ensure that ARM's business runs smoothly and matters which are of strategic or operational importance are escalated to the relevant committee. As the Group continues to grow, we review and improve our governance framework, taking into account legislation, regulations and best practice guidelines.

For more information see:

Our Board and its activities	Page 6
Audit Committee	Page 18
Nomination Committee	Page 23
Remuneration Committee	Page 25

Our approach to risk

As a Board, we also have ultimate responsibility for the Group's performance, for overseeing the management of risk and internal controls, and ensuring that the mitigation of the risks that we face is at 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 2015, in accordance with Code Provision C.2.1 and the FRC's updated guidance on risk management and internal control, the Board carried out a robust assessment of the Group's principal risks. You can read more about how we identify and manage risks on pages 35 to 39 of our Strategic Report, about our risk management framework on pages 12 to 15 of this report, and about how we carried out our risk assessment activities in the Audit Committee report on pages 18 to 21.

Remuneration

The 2014 revisions to the Code introduced new provisions relating to the design of remuneration. During the course of 2015, the Remuneration Committee has spent time reviewing reward across the Group to ensure optimal alignment to the ARM business strategy and core beliefs and promoting the long-term success of the Group.

In our 2014 Annual Report, we set out proposals for the Chief Financial Officer's remuneration package, which were in line with our approved Remuneration Policy, and in the lead up to our AGM in April 2015 we engaged with shareholders to address their concerns around the structure of the package. After the AGM we continued to engage with shareholders and receive their feedback, which will be taken into account when setting future director remuneration. You can read more about how we have engaged with our shareholders on the topic of remuneration, and our proposals for 2015 in the Remuneration report on pages 25 to 38. We continue to be cognisant of the general sensitivity relating to executive director remuneration and are committed to the principle that there should be no reward for failure.

During 2015, the global economic environment remained challenging and competitive.
The semiconductor industry in particular is undergoing a period of significant change, including expansion in China as the country develops its own domestic industry, and consolidation across much of the rest of the world. The Board played an important role in ensuring that the Group's performance targets were achieved in the context of these challenges. The reports from the various Board committees demonstrate that continuous improvement of our governance framework remains 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 2016

Our Board
The experience of the team

ARM's Board has a good breadth and depth of experience which will help 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 shown on the following pages:

Gender of the Board

Male 80%

Female 20%

Sector experience of the board

Financial 60%

Manufacturing 40%

Technology 80%

Retail 40%

Telecommunications 60%

Aviation 30%

Oil and gas 40%

Infrastructure 30%

Tenure of the board

<1 year	3
1–3 years	2
3–6 years	3
>6 years	2

Stuart Chambers 59
Chairman

Committees
Nomination Committee (Chairman)

Current directorships
Rexam plc (Chairman)

Time on Board
2 years

Experience and 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 four other plc boards and chaired three remuneration committees.

Simon Segars 48
Chief Executive Officer

Committees
None

Current directorships
Global Semiconductor Alliance
EDA Consortium
Dolby Laboratories, Inc.

Time on Board
11 years 1 month

Experience and 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.

Lawton Fitt 62
Independent Non-Executive Director

Committees
Audit Committee (Chairman) (from 1 January 2016)

Current directorships
Ciena Corporation
Carlyle Group LP
The Progressive Corporation

Time on Board
5 months

Experience and expertise
Lawton Fitt joined the Board on 1 September 2015. Lawton was previously an investment banker with Goldman, Sachs & Co., becoming a partner in 1994 and a managing director in 1996, before retiring in 2002. She then served as Secretary (CEO) of the Royal Academy of Arts from October 2002 to March 2005. Lawton is currently an independent non-executive director of Ciena Corporation (where she also chairs the audit committee), Carlyle Group LP and The Progressive Corporation; and she is a trustee of Thomson Reuters Founders Share Company, having served on the board of Thomson Reuters Corporation until 2014.

Andy Green 60
Senior Independent Non-Executive Director

Committees
Audit Committee
Remuneration Committee
Nomination Committee

Current directorships
IG Group Holdings plc (Chairman)
Avanti Communications Group plc
DockOn AG (Chairman)
Digital Catapult Limited (Chairman)

Time on Board
5 years

Experience and 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 and he currently chairs two nomination committees and is a member of a remuneration committee.

Larry Hirst 64
Independent Non-Executive Director

Committees
Remuneration Committee (Chairman)

Current directorships
MITIE Group plc

Time on Board
5 years 1 month

Experience and 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 the Senior Independent Director at MITIE Group plc and an Ambassador to Everywoman and Black British Business. 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) and he was also on the International Advisory Board for British Airways. He was awarded a CBE in 2006.

John Liu 52
Independent Non-Executive Director

Committees
Nomination Committee
ARM Asia Advisory Group

Current directorships
Digital China Holdings Limited
China Eastern Airlines e-commerce Co

Time on Board
1 year 2 months

Experience and 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.

Mike Muller 56
Chief Technology Officer

Committees
Risk Review Committee (Chairman)

Current directorships
Intelligent Energy plc
Trustonic Limited
Cambridge Innovation Capital plc

Time on Board
14 years 4 months

Experience and 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.

Stephen Pusey 54
Independent Non-Executive Director

Committees
Remuneration Committee

Current directorships
Centrica plc
FireEye, Inc.

Time on Board
5 months

Experience and expertise
Stephen Pusey joined the Board on 1 September 2015. Stephen was until recently Chief Technology Officer of Vodafone Group plc, retiring at Vodafone's annual general meeting on 28 July 2015. He joined Vodafone in September 2006 and joined the board in 2009. Prior to joining Vodafone, Stephen held the positions of Executive Vice President and President Nortel Networks EMEA, having joined Nortel in 1982. Stephen is also an independent non-executive director of Centrica plc and of FireEye, Inc.

Janice Roberts 60
Independent Non-Executive Director

Committees
Audit Committee
Remuneration Committee

Current directorships
Benhamou Global Ventures (Partner)
RealNetworks, Inc.
Zebra Technologies Corporation
Ronald McDonald House, Stanford

Time on Board
5 years 1 month

Experience and 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.

Chris Kennedy 52
Chief Financial Officer

Committees
Risk Review Committee
Compliance Committee

Current directorships
The EMI Group Archive Trust

Time on Board
5 months

Experience and expertise
Chris Kennedy joined the Board as Chief Financial Officer on 1 September 2015. 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 CFO from 2010 onwards and 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 2014) (the Code).

Compliance statement

The Group has complied with all the provisions of the Code throughout 2015 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 tenth successive year. The Group'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 Code throughout the year.

Code Principle: Leadership

The Board is collectively responsible for the overall conduct of the Group's business. The Board's core activities include:

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

Structure of our Board and committees

The Board is responsible for setting the level of delegated authority, whilst retaining overall responsibility for the governance of the Group. The reporting structure and composition of our Board and committees is discussed in more detail on page 13.

Board attendance in 2015

	Board Meetings attended/ Board meetings eligible for	*Conference calls & ad hoc meetings attended/calls & meetings eligible for*
Number of scheduled meetings	**5**	**6**
Stuart Chambers	5/5	6/6
Simon Segars	5/5	6/6
Lawton Fitt (appointed 1 September 2015)	2/2	1/2
Andy Green	5/5	6/6
Larry Hirst	5/5	6/6
Chris Kennedy (appointed 1 September 2015)	2/2	2/2
John Liu	5/5	5/6
Mike Muller	5/5	6/6
Stephen Pusey (appointed 1 September 2015)	2/2	2/2
Janice Roberts	5/5	6/6
Tim Score (retired 30 June 2015)	2/2	3/3
Kathleen O'Donovan (retired 31 December 2015)	4/5	6/6

Board meetings

Board and committee papers are circulated electronically before each meeting, utilising an online portal which also allows directors to share comments and items of interest. 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, competitive landscape, R&D and organisation/succession planning. Strategy-focused meetings are held at least twice per year.

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 2015 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.

During 2015, the non-executive directors supported the executive team to articulate and deliver the Group's strategy in relation to China, the IoT market and ARM's future investments. 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 2015, 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. In addition the Chairman had at least one face-to-face meeting individually with all directors of the Board and the Senior Independent non-executive Director (SID) also discussed the performance of the Chairman on an individual basis with each of the non-executive directors.

Key performance indicators and linkage to bonus targets

› **Revenue**
Grow ARM's business by winning market share, attracting new customers and entering new markets

› **Normalised operating profit**
Generate increased returns for shareholders

Key

- Gain share in long-term growth markets
- Increase value of ARM technology in smart devices
- Generate new revenue streams from adjacent markets
- Invest for the long term

Board Activities during 2015

Activity	*Actions/Progress*	*Link to KPI*
Reviewed M&A Strategy and discussed potential acquisitions	Acquired Wicentric, Inc. in February 2015 Acquired Sunrise Micro Devices, Inc. in April 2015 Acquired Discretix, Inc. (trading as Sansa Security, Inc.) in July 2015 Acquired trade and certain assets of Carbon Design Systems, Inc. (incl. IP) in October 2015 Ongoing review of M&A activity	
Discussed the Group's capital structure, dividends and buyback policy	Buyback programme took place during 2015 to offset the dilution effect of employee share awards. Declared dividends.	
Debated risk appetite and the development of risk appetite statements against the corporate risk register (CRR)	Ongoing review of the CRR by the Risk Review Committee and creation of appropriate risk appetite statements to ensure risk management is firmly embedded within the business. Assessment of the robustness and effectiveness of the CRR and surrounding processes.	
Discussed global sales development	New sales organisation structure implemented and targets set for 2015 and beyond.	
Conducted Board effectiveness review (internal)	Priority areas for improvement identified and progress against 2014 priority areas measured. Board met without Chairman present to discuss Chairman effectiveness.	
April Strategy meeting – discussed new and emerging technology segments and investment strategy	Creation of new incubation model. Clarified investment strategy; identified and confirmed market sectors of principal focus.	
Discussed corporate responsibility strategy	Deeper partnership with UNICEF. Agreed CR strategy and spending for 2015 and beyond.	
Reviewed cyber risk and ARM's risk appetite in relation to cyber risk	Various practical security enhancements implemented throughout 2015 and plans agreed for additional focus on key areas.	
September Strategy meeting – received presentations from Executive Committee members and external partners in China. Discussed integration of acquisitions and succession planning	Agreed strategic objectives over a five-year horizon. Agreed organisational strategy and proposed changes to organisational structure. Conducted visits to ARM partners and met with local management.	
2016 budget submission	Agreed budget proposal designed to achieve long-term growth in profits, earnings per share and cash returns.	

Corporate governance continued…

The Board has a formal schedule of matters specifically reserved for its decision, which was last reviewed in February 2016. A copy of the schedule of matters reserved can be found on our website here: http://www.arm.com/board.

Board responsibilities

Title	*Name*	*Key responsibilities*
Chairman	Stuart Chambers	Board leadership. Board effectiveness. Building constructive relationships between executive and non-executive directors. Promoting the highest standards of integrity, probity and corporate governance throughout the Group.
Chief Executive Officer	Simon Segars	Executive Committee leadership. Day-to-day management of the Group's business. Strategy implementation. Stakeholder engagement.
Chief Financial Officer	Chris Kennedy	Managing the financial aspects of the business. Strategy implementation, in collaboration with the CEO and other Executive Committee members.
Independent Non-Executive Directors	Lawton Fitt Larry Hirst John Liu Stephen Pusey Janice Roberts	Constructively challenging the Executive Committee in its delivery of the Group's strategy within the established risk and governance framework. Reviewing and monitoring the integrity of all information (including financial information) which is made publicly available. Ensuring appropriate succession plans are in place and are effective. Agreeing strategy. Establishing risk appetite and monitor risks.
Senior Independent Director	Andy Green	Acts as sounding board for the Chairman. Providing a communication channel between the Chairman and the non-executive directors. Performance evaluation of the Chairman. Available to discuss matters with shareholders, if required.

Independence

The Board reviews the independence of the non-executive directors on appointment and continues to do so on an ongoing basis. It is the policy of the Board to review the continued appointment of non-executive directors after six years' service. Kathleen O'Donovan, having served for a total of nine years, retired from the Board on 31 December 2015. Two new independent non-executive directors have been appointed during 2015.

All our non-executive directors 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. Stuart Chambers was regarded as independent at the time of his appointment as Chairman.

Company Secretary

Philip Davis took over the role of Secretary to the Board and Board committees from Patricia Alsop in May 2015 and all Board members have individual access to his advice. He 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. He 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 him.

Code Principle: Effectiveness

Board evaluation

In accordance with Code Principles, the Board undertakes a formal and rigorous annual review of its effectiveness. Our last externally facilitated review took place in 2013 with an internally facilitated review in 2014, and in light of the significant changes to Board composition during 2015 we decided once again to undertake an internal evaluation for this year. We updated our Board effectiveness questionnaire, which was circulated as an online survey. The focus of the 2015 evaluation was the extent of progress in relation to the action areas identified in the 2014 review, and the directors' views on the key challenges the Group will face in 2016. We intend to undertake an externally facilitated review during 2016.

2014 action areas identified	*Action taken in 2015*
Ensuring that the Board and committees have the skills and experience they need going forward	Following a rigorous process undertaken by the Nomination Committee, two new independent non-executive directors were appointed, including Lawton Fitt as Chairman of the Audit Committee. Consideration was given to the composition of the Board Committees, and Stephen Pusey was appointed to the Remuneration Committee from 1 January 2016. The Board continues to review the expertise and experience of its membership, and to address any perceived gaps appropriately.
Further improving the culture and dynamics in the boardroom, with each Board member developing a clear understanding of the role of the Board and their individual role	The consensus from the 2014 Board evaluation was that culture and dynamics in the boardroom improved during 2014 and directors' roles were better defined and understood. In 2015, the directors committed to spending more time together outside the formal setting of the boardroom to enhance their relationships. This was of particular importance in helping the newly appointed directors to settle into their roles as quickly as possible and the 2015 evaluation found that the Board felt that the time spent on building their relationships had been useful.
Exiting 2015 with greater clarity and a more harmonised Board view on the long-term vision for the business and the consequent strategic priorities	The consensus from the 2015 effectiveness review was that considerable progress had been achieved in this area as a result of the strong Board focus on strategic priorities in 2015. However, this remains a priority for 2016.
Continuing to enhance the induction and ongoing training process for Board members	Directors attended various ARM events including the annual ARM Partner Meeting and the ARM TechCon, other industry events and external training courses. In 2015 it was agreed that attendance at events and training courses will be formally recorded. It was decided that the induction process had operated well for the new non-executive directors.

The 2015 evaluation covered:

- Board structure and dynamics;
- Board meetings;
- meeting administration;
- Board Committees – Audit, Remuneration and Nomination;
- strategy review; and
- risk management, corporate governance and corporate responsibility.

The overall conclusion was that the directors 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 the newly appointed directors in particular have quickly been able to make a valuable contribution. There were certain areas for further action in 2016 as follows:

- training and development – recording training attendance and increase training opportunities;
- focus of Board time – specific topic sessions scheduled;
- risk management – streamline the presentation of information to the Board; and
- strategy review actions – continued enhancement of strategy sessions.

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 2015, this included comprehensive induction programmes for Chris Kennedy, Lawton Fitt and Stephen Pusey. Each director received a pack of information upon appointment, which included information about the Group and industry environment in which it operates, policies and procedures, the Board programme and governance and risk structure. This was followed up by site visits to Cambridge and San Jose at which individual meetings with key executives were held. Whilst all directors received information to help them gain a good understanding of the Group's operations generally, Chris Kennedy and Lawton Fitt's inductions were focused especially on the Group's finance operations to enable them to fulfil their specific responsibilities more effectively. Induction for the directors who joined during 2015 is ongoing.

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 2015, which will continue during 2016. All Board members are invited to attend the annual ARM Partner Meeting (APM) 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 encouraged to attend the annual Capital Markets 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 April 2015 the Board received a regular annual 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 in July 2015, covering recent and forthcoming developments in corporate governance, audit, reporting, financial accounting and tax. Each non-executive director sits on at least one committee and each committee receives training relevant to its remit through the provision of workshops led by external advisers. The Group has a commitment to training and all directors, executive or non-executive, are encouraged to attend APM and TechCon in order to remain current with ARM's technology and Partners, as well as suitable training courses at the Group's expense.

Corporate governance continued…

Code Principle: Accountability

Risk Management and Internal Control (RMIC)

The ARM Management System (AMS) is the business management and governance system used across ARM. It captures how we do business through delivery of our strategy and objectives, and details the internal controls that we need to manage risks to the long- and short-term success of the business.

AMS is extremely important for our customers, ecosystem, shareholders and people. It provides confidence that we can run this complex business in a robust way, deliver quality products that meet our customers' needs, and ensure that the risks to achieving our business strategy and objectives are understood and managed. AMS documents the details of our governance framework and covers the entire life cycle of risk management and internal control within ARM to:

- **identify** the risks that may impact the delivery or achievement of business strategy and objectives;
- design and **operate** the controls to manage the risks;
- **monitor** the design and operating effectiveness of the controls; and
- **manage** the design, residual risk treatment plans and corrective actions as necessary.

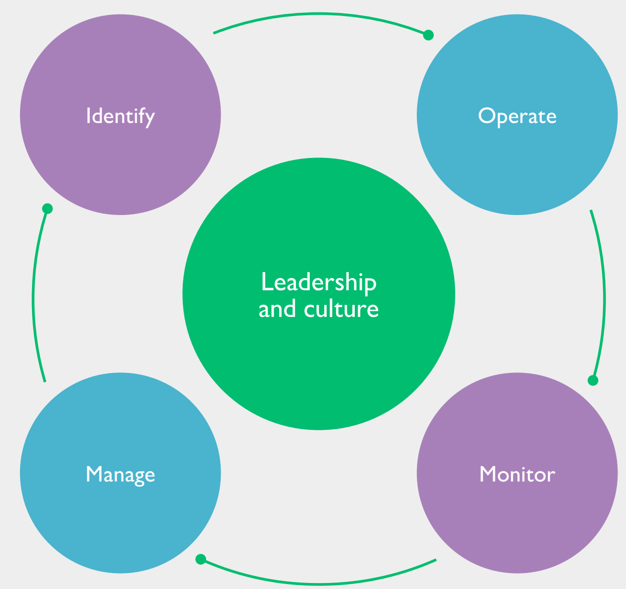
The diagram to the right illustrates the key principles associated with RMIC. The over-arching principle of leadership and culture informs all of our work on RMIC and our internal and external assurance approach assesses the degree to which the desired behaviours and risk culture are embedded within all our business processes. We firmly believe that a strong and well communicated culture of openness and transparency is our best and most fundamental defence against the principal risks to ARM's business.

The AMS design, which includes 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 and Internal Audit function reports on the design and operating effectiveness 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 Group fully complies with the Code's provisions on RMIC, having established procedures to implement in full the FRC "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting".

Risk in pursuit of vision and mission
- Strategic planning aligned with opportunity and risk management
- Risk identification
- Risk assessment
- Risk appetite

Risk management activities (RMA)
- ARM Management System
- Internal controls
- Key performance indicators and key risk indicators



Manage residual risk
- Risk treatment plans
- Group operations' and functions' objectives
- Corrective actions
- Internal control design

Assurance of RMA
- Assurance scoped against RMA
- Annual internal audit plan
- Design and operating effectiveness
- Committees and governance teams

Chairman
Stuart Chambers

Key objectives: leadership, operation and governance of the Board.

Board
Ten directors – three executive directors, the Chairman and six independent non-executive directors

Key objectives: the overall conduct of the Group's business and setting the Group's strategy.

Disclosure Committee
Two executive directors, the Chairman, the Chairman of the Audit Committee and three senior executives. Chairman Simon Segars

Key objectives: ensures that disclosures to shareholders are accurate, complete and fairly present the Group's financial position.

Nomination Committee
Four directors – three independent non-executive directors and Chairman Stuart Chambers

Key objectives: to make recommendations to the Board for future appointments to ensure that the Board comprises individuals with appropriate skills, knowledge and experience to be effective in discharging its responsibilities and to review succession planning.

Audit Committee
Three directors – two independent non-executive directors and Chairman Lawton Fitt

Key objectives: to provide effective financial governance and to assist the Board in ensuring the integrity of the Group's financial reporting. To provide oversight for the external and internal audit processes, to review the risk management and internal control framework and the effectiveness of risk management processes and internal controls.

Remuneration Committee
Four directors – three independent non-executive directors and Chairman Larry Hirst

Key objectives: to review and make recommendations to the Board on executive remuneration regarding the appropriate level for executive directors' salaries, annual bonus targets and performance measures for senior management share-based compensation.

Chief Executive Officer
Simon Segars

Key objectives: to manage the Group's business and, with the Executive Committee, to implement Group strategy, objectives and policies.

Compliance Committee
One executive director, four other Executive Committee members and four senior executives. Chairman Philip Davis

Key objectives: to oversee compliance throughout the business with all relevant international regulations and ensure effective review of AMS, internal controls and corrective actions.

Executive Committee
13 members including the executive directors, key group and function heads. Chairman Simon Segars

Key objectives: to focus on strategy, the day-to-day running of the business, financial and competitive performance, organisational development, succession planning and implementation of policies.

Risk Review Committee
Two executive directors, four other Executive Committee members and three senior executives. Chairman Mike Muller

Key objectives: to manage the process to identify and evaluate risks which may impact the Group's business strategy and objectives, to oversee risk treatment plans designed to mitigate residual risk, and to review risk appetite statements.

Corporate governance continued…

In accordance with the new provisions contained in the Code, the Board has conducted a robust assessment of the principal risks facing the Group, and have explained how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate in the Longer-Term Viability Statement which can be found on page 35 of the Strategic Report.

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 Securities and Exchange Commission (SEC).

Committee and management structure

The committee structure through which the Board ensures that the Group's RMIC framework is designed and operating effectively is shown on page 13. The Board delegates responsibility for reviewing and monitoring the Group's internal controls to the Audit Committee and in turn the Compliance and Risk Review Committees report to the Executive Committee with specific items such as whistleblowing and effectiveness of internal controls also being reported to the Audit Committee. Together these committees are responsible for identifying and assessing risks which may impact the Group's business strategy and objectives, and for monitoring the effectiveness of internal controls and progress of risk treatment plans designed to further mitigate the residual risk, if judged necessary.

In addition, there are various committee, governance review team 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 and consider any other matters requiring approval. Topics reviewed include 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.

The Audit Committee has reviewed and approved the system of RMIC, 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 described its findings on pages 19 and 20 of the Audit Committee report.

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 35 to 39 and in the Annual Report on Form 20-F for the year ended 31 December 2015 which is available on the Group's website at http://www.arm.com/sec and does not form part of this Annual Report.

Risk Review Committee

Strategic and operational risks are identified, prioritised and reported on within the Corporate Risk Register (CRR). 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. The three lines of defence are defined as operational controls (first line), risk management and compliance activities (second line), and independent sources of assurance such as internal audit (third line). During 2015 the CRR was refined with the addition of risk appetite statements to reflect the acceptance of differing levels of risk across the business. Residual risks are assessed in terms of likelihood and impact on the basis that the risk management activities assigned to them are operating effectively and an overall RAG (Red, Amber, Green) rating is generated, taking the risk appetite statement into account where appropriate. Each risk on the CRR is owned by a member of the Executive Committee. Risk treatment plans are managed within the relevant objectives of the Group's operations and functions. Risks are identified through senior management discussion (top down) and regular reporting from every part of the business (bottom up).

The Risk Review Committee typically meets on a quarterly basis to review the CRR and ensure that it remains live to the changing risk profile of the business. Each risk owner is required to review and demonstrate that risks are being appropriately managed via the internal controls and risk treatment plans, which are normally updated bi-annually.

At each meeting, the Board and the Audit Committee receive copies of the minutes of the Risk Review Committee. These provide additional visibility of the range of risks, the ways in which such risks are managed, and management of the risk treatment plans to further mitigate where judged necessary. The Risk Review Committee reports formally on the CRR to the Executive Committee twice a year, where its findings are considered and challenged. These reports form the basis of regular reporting on principal risks at Board level, and facilitate the Board's assessment of the principal risks facing the Group. The CRR, risk appetite and plans for further enhancing the Group's risk management framework in 2016 were reviewed by the Board in July and again in November 2015 and are an integral part of monitoring the development and implementation of the Group's strategy. Risk appetite will continue to be discussed and refined during 2016. During 2015, 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.

Compliance Committee

The Compliance Committee oversees compliance throughout the business with all relevant standards, international regulations and trading requirements, amongst them: direct oversight of internal controls, financial, employment, health and safety, environmental, business continuity, customer satisfaction and security processes and policies. The Compliance Committee reports to the Executive Committee and to the Audit Committee throughout the year and its minutes are reviewed by the Audit Committee and the Board.

Disclosure Committee

The Disclosure Committee 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 includes the Chairman and the Chairman of the Audit Committee, the Chief Executive and the Chief Financial Officer and meets immediately prior to each quarterly results announcement or more often as needed to consider and approve any disclosures.

Business Assurance and Internal Audit function

The remit of the Business Assurance and Internal Audit function is to provide assurance that the risk management and internal controls are designed and operating effectively and that corrective action is being taken in a timely manner. Each year, the Internal Audit function develops an annual audit plan. The annual audit plan is agreed by the Audit Committee, which monitors execution of the plan throughout the year. Audits are designed to assess the design and operating effectiveness of controls and recommend improvements in related processes as necessary.

The Group has certification for ISO 9001 (the international standard for Business Quality Management), ISO 22301 (Business Continuity) and ISO 27001 (Information Security), which was maintained throughout the year and was audited by Lloyd's Register Quality Assurance (LRQA).

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 LRQA, who support our COSO 2013 (Committee of Sponsoring Organizations of the Treadway Commission) entity level controls and corporate integrity assessment, which covers FRC guidelines on embedding risk culture. The effectiveness of the controls over financial reporting is also monitored by the Audit Committee, which receives regular reports of the testing conducted by internal and external auditors.

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 were no significant control failures during 2015 or up to 15 February 2016, being the latest practicable date before the printing of this report.

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

During 2015, an externally facilitated review of the effectiveness of the Internal Audit function took place which concluded that the Internal Audit function delivers appropriate assurance across the business efficiently and effectively. Some areas of focus were identified and these will be considered by management as part of the business planning process, to ensure that the Internal Audit function remains effective as the business continues to grow.

Whistleblowing procedures

The Group operates a whistleblowing policy for employees to confidentially report concerns about any unethical business practices to senior management in strict confidence and without fear of recrimination, via a number of routes. The policy was last 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, and during 2015 the effectiveness of the 2014 update was reviewed by the Compliance Committee. The Audit Committee receives details of any whistleblowing reports from the Compliance Committee.

There was one whistleblowing report in 2015, which was not found to involve any financial or other loss to the Group. It was thoroughly investigated and it was deemed appropriate that no further action was taken. In 2016 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 for all employees is in place to ensure that employees understand the requirements of the Act and the reporting procedures. Tailored communications are directed 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 Bribery Act. The Compliance Committee oversees the reporting procedures and monitors and escalates reports in appropriate circumstances. There were no reports of concern during 2015 or up to 15 February 2016, being the latest practicable date before the printing of this report.

Corporate governance continued…

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 in 2013 with Shift, a specialist NGO working on business and human rights, we are confident that our risk in this area remains low. More detail is provided in our supplemental CR reporting which can be found on our website here: www.arm.com/CR. 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 aim 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 46. 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.

Environmental, social, corporate governance and ethical policies

Whilst 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 (which does not form part of this Annual Report) on our website www.arm.com/CR and a summary of highlights from the year are included in the Sustainability section of the Strategic Report on page 44. Following the publication of the United Nations Sustainable Development Goals (SDGs) in September 2015, our CR report will describe how we are responding to, and aligning with the SDGs.

Code Principle: Relations with shareholders

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 SEC announcements, and the Annual Report.

At present, over 29 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 here: http://www.arm.com/contact_ir.

AGM

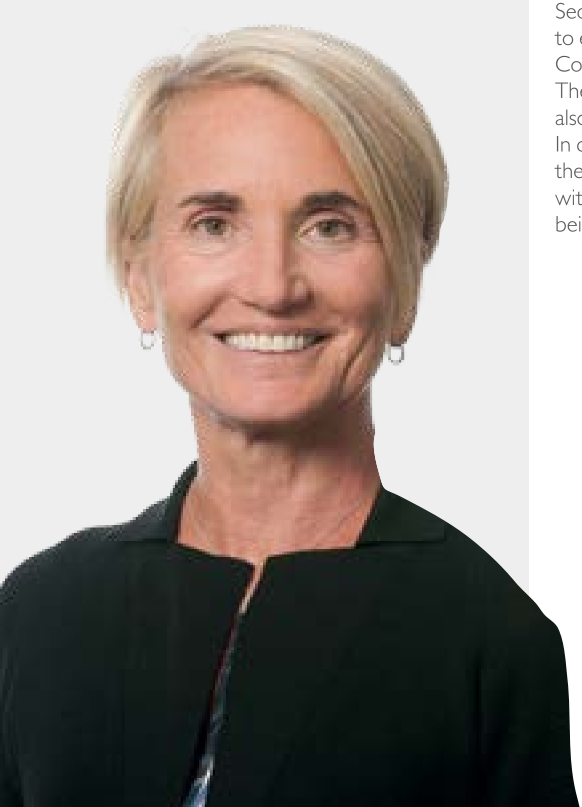
The Board actively encourages participation at the AGM, scheduled for 28 April 2016, which is the principal forum for dialogue with private shareholders. The Circular and Notice of AGM are being sent to shareholders concurrently with the distribution of this Report, which is well in advance of the required 21 clear days before the meeting. At the AGM, 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 Chairmen of the Audit and Remuneration Committees to be available to answer questions and for all directors to attend.

All resolutions proposed at the 2016 AGM will be decided on a poll and the voting results will be published via RNS and the SEC, and made available on the Group's website at http://www.arm.com/agm. Details of the resolutions that will be proposed at the 2016 AGM can be found in the Directors' report disclosures starting on page 44.

We are committed to assisting the Board in ensuring the integrity of the Group's financial reporting, audit processes, risk management and internal control.

Audit Committee report

Lawton Fitt
Committee Chairman



Committee membership and responsibilities

Lawton Fitt became Chairman of the Committee on 1 January 2016, succeeding Kathleen O'Donovan who chaired the Committee from 31 January 2011 until 31 December 2015. Lawton 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 and DTR 7.1.1 R. Our 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 General Counsel & Company Secretary are invited to 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. In conjunction with each meeting, representatives of the Group's external auditors have a private session with the Committee, without other management being present.

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

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 General Counsel & Company Secretary, the Chief Information Officer, 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, to enable certain members of management to report on key areas of risk and control and to ensure that the agendas of the Audit Committee reflect developments in the business.

During 2015, 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, updates to financial reporting requirements and the Group's expectations from the internal and external audit processes. We consider this to be a valuable exercise which gives the ARM finance team and the external auditors the opportunity to reflect on the previous year's audit and helps to ensure that our audit processes are continually improved.

Committee composition and meeting attendance during 2015

Name of director	*Position*	*Meetings attended/eligible meetings*
Lawton Fitt (appointed 1 September 2015)	Independent non-executive director, Committee Chairman from 1 January 2016	3/3
Janice Roberts	Independent non-executive director	7/7
Andy Green	Senior Independent Director	7/7
Kathleen O'Donovan (retired 31 December 2015)	Senior Independent Director, Committee Chairman	7/7

Principal activities

Principal activities of the Committee during 2015 were the monitoring and reviewing of:

- the integrity of the financial statements of the Group, including any significant reporting judgements;
- any formal announcements of the Group's financial performance and the clarity of disclosures;
- the Group's risk management framework and internal controls and the effectiveness of the Group's internal controls over financial reporting;
- the status of Sarbanes-Oxley compliance;
- 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 and the Longer Term Viability Statement, in advance of their consideration by the Board;
- whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable;
- the work and results of Business Assurance and Internal Audit in relation to the 2015 Audit Plan and approving the 2016 Audit Plan;
- the effectiveness and integrity of the 2015 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; and
- the effectiveness of the Audit Committee and our own Terms of Reference.

The integrity of financial reporting and review of significant issues

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. 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 identification of the Group's operating segments and cash generating units and presentation of non-reportable segments of the Group which concluded that the business still has one reportable segment;
- review of the Adjusted Performance Measures (APMs) 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;
- consideration of the judgements surrounding the goodwill impairment reviews performed in the fourth quarter of 2015. 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;
- review of reports from the Compliance and Risk Review Committees as regards any matters relevant to the financial reporting of the Group; and
- consideration of the accounting treatment applied to intangible assets, including goodwill, on acquisitions.

The effectiveness of risk management and internal controls

2015 was the first reporting period in which the Board was required to comply with the 2014 revisions to the UK Corporate Governance Code, which included a new requirement at C.2.1 to conduct a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Board has always believed that an effective and robust risk management framework and system of internal control is essential to achieving reliable business performance and we have an established process to identify and manage risk within the business. The Audit Committee oversees the design and effectiveness of this process; we will continue to focus on challenging and improving it throughout the year. You can read more about our principal risks on pages 35 to 39 of the Strategic Report.

We are pleased with the progress and improvements achieved in 2015 as described in the Corporate Governance report on pages 12 to 15; however, we believe that there is no room for complacency when managing risk and internal controls in a fast-moving business environment and work in these areas will be ongoing in 2016 and beyond. 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 and the growing strength of the assurance provided by the three lines of defence model.

Audit Committee report continued…

The COSO framework of internal control continues to be embedded 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 business management and governance system known as AMS and the 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 conducted a review of the effectiveness of the Company's risk management and internal control systems which included consideration of how risks are identified and evaluated, how mitigation plans are created, executed and monitored, and has accountability for risk mitigation is established. The annual plan which the Committee reviews covers all sources of assurance and a quarterly update on progress against plan is provided. We reported to the Board on any relevant matters. There were no significant internal control failings or weaknesses which it was considered necessary to report.

The work of Business Assurance & Internal Audit

ARM's Internal Audit function develops an annual audit plan to provide assurance that controls are designed and operating effectively and that corrective action is being taken where necessary.

In 2015, we engaged KPMG to conduct a review of the effectiveness of the Internal Audit function and put forward proposals for enhancing the function to ensure that it remains fit for purpose as the business grows. The review concluded that the Internal Audit function delivers appropriate assurance across the business efficiently and effectively. Some areas of focus were identified and these will be considered by management as part of the business planning process, to ensure that the Internal Audit function remains effective. We also reviewed the resources of the team, the plans for their deployment during the year and the manner in which key working relationships were managed between the Business Assurance team and the Compliance and Risk Review Committees, the external auditors PwC and LRQA.

As well as the committee's formal meeting with the VP Business Assurance & Head of Internal Audit, the Chairman of the committee met 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.

Fair, balanced and understandable

ARM's annual report takes a large part of the year to complete; from concept to design and image selection to content development, authoring and reviewing. A small core team creates the design and most of the content, and they call on colleagues across the business to add key insights and details. The report is continually reviewed throughout its planning and development stage by a wide range of internal and external experts. Together, they endeavour to ensure that ARM's annual report is a fair reflection of its business and industry context; it is balanced, with emphasis on both the future opportunities and risks the business faces; and it is concise and understandable to a broad range of readers with different backgrounds, knowledge levels and requirements.

In line with the requirement in the Code; based on internal 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.

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 legal requirements of the FCA, SEC and UK Corporate Governance Code. Throughout 2015, the Group complied fully with the UK Corporate Governance Code (September 2014), the UK Listing Rules, Disclosure and Transparency Regulations and also with the Sarbanes-Oxley Act 2002 (US).

Going concern and longer-term viability

In advance of the consideration by the Board of its going concern evaluation, the Audit Committee reviewed the 2016 budget and longer-term plans and considered any reasonably likely scenarios that may occur. In 2015, the Committee also considered for the first time the proposed Longer-Term Viability Statement (LTVS) and reviewed the analysis which supported the time period on which the LTVS is based including the assumptions and qualifications underlying the stress-testing and scenario analysis. 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 and that the LTVS is appropriate. This view was supported by a sensitivity analysis and stress tests which showed that, across the three-year timeframe of the LTVS even extreme assumptions in the stress test did not alter the conclusion.

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 its risk-based approach, including the interaction with its 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 November and December 2015 and January and February 2016. 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.

External 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 2015 and reported on in January 2016 involving Board members and senior managers who interact with the auditors. The review was conducted with reference to the best practice guidance contained in the FRC's Audit Quality practice aid, which was published in May 2015 and looked at the robustness of the audit, and the quality of delivery, people and service. The conclusion was that the auditors are effective.

Tenure of external auditors

The Committee has considered the 2014 amendments to the EU Statutory Audit Directive (the Directive) with regard to audit tenure, which will come into force on 16 June 2016 and mandate a maximum audit tenure of 10 years, subject to certain exceptions. 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's expectation remains that it will 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 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:

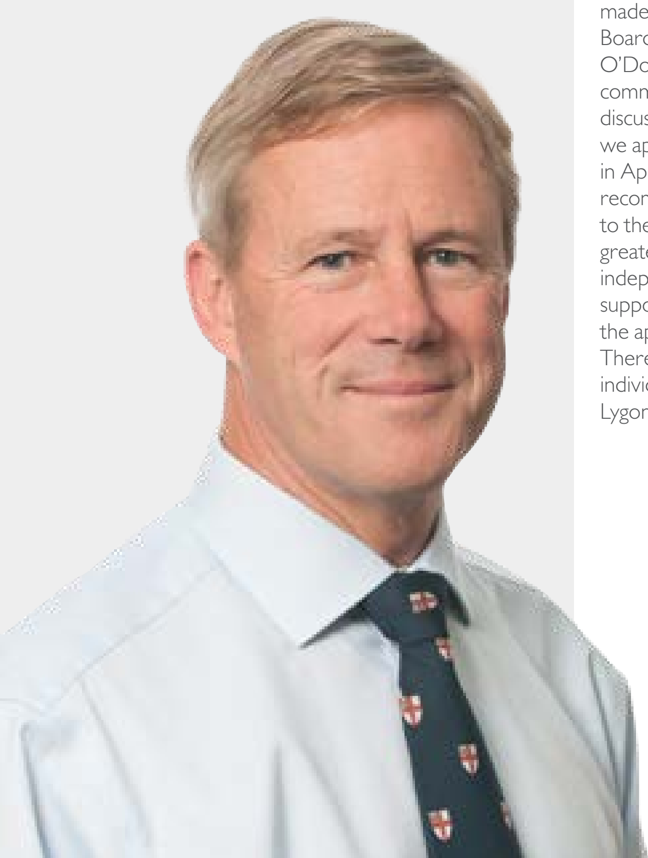
- services that require general pre-approval by the Committee;
- services that require specific pre-approval by the Committee before work commences; and
- services that cannot be provided by the auditors.

This non-audit services policy is reviewed annually. The Committee has discussed the anticipated effects of the amendments to the Directive and will ensure that the non-audit services policy remains fully compliant with transposition of the Directive into UK legislation. 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. Consulting work by PwC in respect of the Group's procurement model, which commenced and was reported on during 2014, was finalised at the beginning of 2015. No other consulting work took place. 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. A breakdown of fees paid to the auditors can be found in note 5 to the financial statements.

Lawton Fitt
Committee Chairman
17 February 2016

The Nomination Committee's goal is to ensure that the Board and its committees comprise individuals with the requisite skills, knowledge and experience to maximise effectiveness in discharging its duties.

Nomination Committee report



Nomination Committee effectiveness

2015 activities

The Committee continually reviews the skills, experience and attributes of the current directors, which informs the qualities to be sought when making future director appointments.

Our goal remains to ensure that the Board and its committees comprise individuals with the requisite skills, knowledge and experience to maximise effectiveness in discharging its duties. In 2015, we finalised the appointment of our new CFO and made two appointment recommendations to the Board. The search for a replacement for Kathleen O'Donovan as Chairman of the Audit Committee commenced in February 2015. Having entered into discussions with a number of external search firms, we appointed Zygos Partnership to lead the search in April 2015. After a rigorous search process we recommended the appointment of Lawton Fitt to the Board. We also identified the need for a greater degree of technology expertise amongst the independent non-executive directors, and, following support from Lygon Group, we recommended the appointment of Stephen Pusey to the Board. There is no connection between the Group, or any individual director and either Zygos Partnership or Lygon Group.

At the end of 2014, the Board agreed that we should review the composition of each of the standing committees and make recommendations for any improvements which we identified. During 2015, we recommended the following appointments to committees in conjunction with the Chairmen of those committees:

- John Liu – appointed to the Nomination Committee 5 February 2015
- Lawton Fitt – appointed to the Audit Committee 1 September 2015 (Chairman from 1 January 2016)
- Stephen Pusey – appointed to the Remuneration Committee 1 January 2016

In addition to leading the process for Board appointments and making recommendations to the Board in relation to new appointments, the Committee also has a responsibility to contribute towards the Board's development of an orderly succession plan for the appointment of directors and senior management. It was appropriate to involve the whole Board in this process and in September 2015, the Board received a comprehensive presentation on succession planning. Following that session, the Nomination Committee met and discussed succession for each of the most senior appointments and a number of actions were agreed and will be taken forward during 2016.

Nomination Committee composition and meeting attendance during 2015

Name of director	*Position*	*Meetings attended/eligible meetings*
Stuart Chambers	Chairman	4/4
Kathleen O'Donovan	Senior Independent Director (retired 31 December 2015)	4/4
Andy Green	Independent non-executive director (Senior Independent Director from 1 January 2016)	4/4
John Liu	Independent non-executive director (appointed 5 February 2015)	4/4

Nomination Committee report continued…

Diversity

The Committee notes the findings of the fifth annual progress report by Lord Davies in respect of the proposals originally put forward in the Davies Review of 2011. We recognise the importance of promoting gender equality on boards and throughout businesses.

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, throughout senior management and across the organisation as a whole.

We will continue to make Board appointments on merit and also to value diversity in its broadest context. 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 2016, 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.

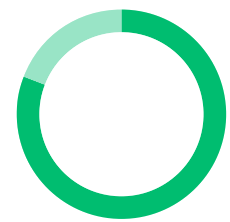
The Board currently comprises three executive directors, the Chairman and six independent non-executive directors. At the year end there were eight men (80%) and two women (20%) which broadly reflects the gender diversity of ARM's workforce as a whole. Other measures of diversity, such as tenure and industry experience are shown on page 6.

Stuart Chambers
Chairman
17 February 2016

As of the 31 December 2015, the gender splits for the Group are as follows:

Split for 2015 hires by gender

Men	81%
Women	19%

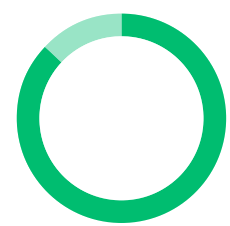


For the Board

Men	80%
Women	20%

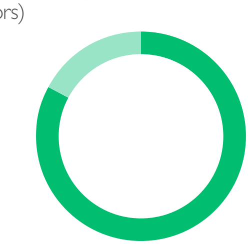
For Senior Managers

Men	87%
Women	13%



For all ARM established employees
(does not include contractors)

Men	83%
Women	17%



Directors' Remuneration report

Larry Hirst
Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present you with ARM's Remuneration report for 2015.

In 2015, the committee has continued to work to ensure that a consistent policy on pay applies across the Group and we have spent time reviewing the design of reward applicable to employees both at and below executive director level. Our aim is to ensure that remuneration policies and practices remain competitive within our industry to attract the best talent, whilst driving behaviours that are in the long-term interests of the Group and its shareholders.

The ARM Remuneration Policy received a 97% vote in favour at the 2014 AGM, which we believe reflected shareholders' approval of a remuneration policy that drives performance, is aligned with Group strategy and shareholder value, and that is fair to both executives and shareholders. In this context, the 68% support for the annual report on Remuneration at the 2015 AGM was a disappointing outcome.

Our engagement with shareholders prior to the AGM indicated concerns about the structure of recruitment buy-out awards for our new Chief Financial Officer, Chris Kennedy, as disclosed in the 2014 Annual Report. In particular, there were concerns that part of the award was in cash (subject to clawback) and that none of the award was subject to explicit performance conditions.

The Remuneration Committee has discussed the feedback received and understands the position of shareholders on this issue. The committee will take the feedback provided into account in the event of future executive director recruitment.

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 2016 and we intend to bring our updated Remuneration Policy to the 2017 AGM for approval. Accordingly, we will consult with shareholders in the second half of 2016.

At a glance

Remuneration Strategy	*Our principles*
The key focus of remuneration at ARM is long-term performance and delivery of value to shareholders. **Executive director reward:** Fixed Salaries, pensions and benefits are appropriately competitive but are generally no higher than market median.	The Group's strategy and business objectives are the primary considerations when selecting appropriate performance measures for our incentive plans. Remuneration packages should be as simple as possible, whilst still taking into account 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.
Variable More than 70% of total potential remuneration is performance-related. LTIP – potential to earn significant remuneration when performance is above target but no shares vest if performance is below threshold. 50% of vested shares are subject to further deferral. Bonus payments – no payment is made if financial performance is below threshold.	Benchmarking provides a useful reference point but not a target range for salaries, incentives or other benefits. 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 35.

Directors' Remuneration report continued…

Summary of single figure total pay for 2015 (audited)

Executive director	*Total amount of salary £000*	*All taxable benefits £000*	*Bonus payments £000*	*Money and other assets receivable for periods of more than one financial year £000*	*All pensions-related benefits £000*	*Other £000*	*Total £000*
Simon Segars	**575**	82	378	360	68	–	**1,463**
Chris Kennedy	**158**	955	104	–	13	950	**2,180**
Mike Muller	**302**	15	181	340	34	–	**872**
Tim Score (retired 30 June 2015)	**214**	9	–	1,027	23	–	**1,273**

The full single figure table of remuneration with explanatory notes is on page 28

Key performance indicators and linkage to bonus targets

› **Revenue**
Grow ARM's business by winning market share, attracting new customers and entering new markets

› **Normalised operating profit**
Generate increased returns for shareholders

Key

- Gain share in long-term growth markets
- Increase value of ARM technology in smart devices
- Generate new revenue streams from adjacent markets
- Invest for the long term

The Group's strategy, key performance indicators and progress towards achieving them are described in more detail in the Strategic Report on pages 26 to 34. The adoption of revenue and normalised operating profit as performance measures for the bonus targets demonstrates alignment of executive reward with our strategic goals.

Contents of the Remuneration Report:

Group performance in 2015

ARM performed strongly in 2015. Group dollar revenues increased 15% and normalised diluted earnings per share by 25% (IFRS: 33%). However, across the three-year cycle on which LTIP vesting is calculated ARM's share price was not in the top half of its comparator group and therefore did not achieve the relative Total Shareholder Return (TSR) target. Bonuses earned by executive directors in respect of performance in 2015 were in the range of 59.81% to 65.79% of salary. The Former Deferred Annual Bonus Plan (DAB) vested in full, with the maximum 2:1 ratio of matching shares being earned. This was achieved because the normalised EPS growth upper target was reached for the three years making up the performance period.

Key activities of the committee in 2015 and 2016

Salary increases

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 2014 and by 11.65% in January 2015. For 2016, the committee reviewed his salary and overall package against best practice in UK companies of similar size and complexity (with reference to revenue and market capitalisation). Taking this and Simon's individual performance over the previous year into account. we concluded that an increase of 6.09% from £575,000 to £610,000 for 2016 was appropriate, given his continued capability and performance and the increasing scale, profitability and complexity of the Group. This 6.09% increase compares with an average of 6.24% increase across the employee population as a whole.

The committee also reviewed salaries for Chris Kennedy and Mike Muller, and determined that an increase of 5% was appropriate. A review of Chris Kennedy's salary was considered appropriate in light of the fact that his contract was agreed in January 2015, notwithstanding the fact that he did not commence employment until 1 September 2015.

It is anticipated that any future increases for all executive directors will continue to be aligned with those applicable to employees generally and will, as usual, be subject to continued high performance from both the individual and the Group.

Changes to LTIP leaver provisions

The committee reviewed the Company's LTIP leaver provisions during the year, and minor revisions were made to further align with market practice and best practice. In particular, in respect of awards made in 2015 and future years, good leavers' awards will typically vest on the normal vesting date rather than immediately on termination, and any holding period will also apply.

Other activities included:

- review of Group and individual executive directors' performance against bonus targets for 2015;
- setting of performance targets for the bonus plan for 2016;
- review of performance targets for the LTIP awards in 2016;
- review of a new all-employee share matching scheme, to be put to shareholders for approval at the 2016 AGM for implementation in 2017. Executive directors will not participate in this plan unless or until permitted to do so by the Remuneration Policy;
- review of updated plan rules for the 2006 Employee Equity Plan and the 2006 Employee Stock Purchase Plan, which expire in 2016; and
- approval of treatment of exceptional items in respect of calculating annual bonus payments, resulting in actual revenue and normalised operating profit (NOP) being adjusted to remove the impact of the acquisitions made in 2015 and certain long-term strategic investments for the purposes of measuring annual bonus. The committee considers this to be reasonable since these represent activities that were outside of the original budget and target levels set. The impact was to reduce revenue achieved by $9.1m and to increase NOP by £4.2m.

Other than in relation to the treatment of exceptional items in respect of the annual bonus, there were no other areas where the committee exercised discretion in 2015 or to date in 2016.

ARM is a high technology business that relies on its ability to attract, develop and retain top quality talent in all areas and particularly in engineering and computer science. 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.

The rest of this report comprises two sections:

- The Annual Report on Remuneration, which details remuneration arrangements for the directors as they operated in 2015, and explains the linkage between Group strategy, performance and remuneration. This report, including the Chairman's introduction, will be subject to an advisory shareholder vote at the 2016 AGM.
- Our Remuneration Policy (for information only), approved at the 2014 AGM, to which no changes are proposed for 2016.

We look forward to receiving your support at the AGM on 28 April 2016.

Larry Hirst
Chairman of the Remuneration Committee
17 February 2016

Annual Report on remuneration

We set out below how our Remuneration Policy was implemented during 2015 and how we plan to implement it in 2016.

Single figure remuneration (audited)

Executive director	Total amount of salary £000	All taxable benefits £000	Bonus payments £000	Money and other assets receivable for periods of more than one financial year £000	All pensions-related benefits £000	Other £000	Total £000
Simon Segars 2015	**575**	**82**	**378**	**360**	**68**	**–**	**1,463**
Simon Segars 2014	515	155	281	1,277	56	–	2,284
Chris Kennedy 2015 (appointed 1 September 2015)	**158**	**955**	**104**	**–**	**13**	**950**	**2,180**
Chris Kennedy 2014	–	–	–	–	–	–	–
Mike Muller 2015	**302**	**15**	**181**	**340**	**34**	**–**	**872**
Mike Muller 2014	294	15	146	1,260	33	–	1,748
Tim Score 2015 (retired 30 June 2015)	**214**	**9**	**–**	**1,027**	**23**	**–**	**1,273**
Tim Score 2014	427	27	212	1,825	46	–	2,537
Total 2015	**1,249**	**1,061**	**663**	**1,727**	**138**	**950**	**5,788**
Total 2014	1,236	197	639	4,362	135	–	6,569

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 (audited):

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.

The bonuses earned during 2015 will be paid in cash in February 2016.

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 2016. These shares were awarded in February 2013 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 2015 since the performance period for both these schemes concluded in 2015.

All the executive directors receive family healthcare and annual travel insurance as part of their benefits in kind. In addition, Mike Muller and Chris Kennedy receive car and fuel allowance. Simon Segars received £68,000 (2014: £143,000) for living, transportation and other allowances as part of his placement in the US. Chris Kennedy received a one-off cash award of £950,000 in January 2016 which is included in taxable benefits and a one-off award of RSUs of £950,000 in November 2015 which is included in other as part of his new Chief Financial Officer package.

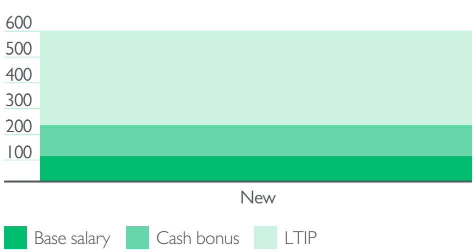
Share prices applicable to grant and vesting of share awards:

8 February 2013 – 924.5 pence
8 February 2014 – 896.0 pence
12 February 2015 – 1,087.0 pence
11 February 2016 – 899.0 pence

Remuneration summary:

From 2014 onwards remuneration for executive directors has comprised 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 reward executive directors of the calibre required to achieve the Group's business strategy and goal of sustained growth in corporate performance. The committee considers 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 31.

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.

Full details of our Remuneration Policy as approved by shareholders at the 2014 AGM is set out on pages 39 to 43.

Base salary increases for 2015 and 2016

Executive directors' annual base salaries have been increased as follows:

	From 1 January 2015	*% increase 2014-2015*	*From 1 January 2016*	*% increase 2015-2016*
Simon Segars	£575,000	11.65%	**£610,000**	**6.09%**
Tim Score	£427,450	0.00%	**n/a**	**n/a**
Mike Muller	£302,360	3.00%	**£317,500**	**5.01%**
Chris Kennedy*	£475,000	n/a	**£498,750**	**5.00%**

*Chris Kennedy's 2015 salary applies from 1 September 2015.

For 2015, the average increase in base salaries for the executive directors was 5.57% for the three individuals who served in both 2014 and 2015, compared with the average increase for the workforce as a whole of 4.78%. For 2016, the average increase is 5.46% for the executive directors and 6.24% for the workforce as a whole. 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 2014 and a further 11.65% in January 2015. For 2016, the committee reviewed his salary and overall package against best practice in UK companies of similar size and complexity (with reference to revenue and market capitalisation), taking into account Simon's individual performance over the previous year. This review concluded that an increase of 6.09% from £575,000 to £610,000 for 2016 was appropriate given his continued capability and performance and the increasing 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.

Across the Group, the increase for 2016 is in a range of 4.2% for the US rising to 9.2% in Asia, reflecting local market conditions and salary inflation.

Annual Bonus Plan in respect of 2015 financial year

Since 2014, bonuses have been paid wholly in cash. Target bonus is 85% and maximum bonus is 125% of base salary.

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 exceptional events including acquisitions or disposals. This discretion was exercised in 2015 and actual revenue and normalised operating profit (NOP) were adjusted to remove the impact of the acquisitions made in 2015 and certain long-term strategic investments for the purposes of measuring annual bonus. The committee considers this to be reasonable since these represent activities that were outside of the original budget and target levels set. The impact was to reduce revenue achieved by $9.1m and to increase NOP by £4.2m.

Annual Report on remuneration continued…

2015 Bonus targets and achievement (audited):

Financial element outcomes:
The financial targets that applied to the 2015 bonus and the achievement against those targets were:

	Weighting	Threshold	Budget	Target	Achievement	Bonus achievement
Normalised Operating Profit	50% of max	£406.4m	£454.0m	£471.0m	£462.3m	**37.22%**
Group Revenue	50% of max	US$1,292.6m	US$1,450.3m	US$1,540.0m	US$1,479.5m	**33.14%**
Bonus outcome (% of Target)		0%	50%	100%		**70.36%**
Bonus achievement (% of salary)		**0%**	**42.5%**	**85%**		**59.81%**

*NOP for bonus purposes is calculated using the Group budget exchange rate of £1:US$1.60 for 2015.

- For each element, bonus pays out linearly between the threshold and the budget and between the budget and 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).

Individual performance outcomes (audited):

The individual performance multiplier is linked to targets and objectives that are specific to each executive director and set annually. 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 2015, the individual performance conditions included objectives related to the following areas:

Simon Segars	Achieving 2015 business performance targets Succession planning, key appointments and organisational effectiveness Strategy development
Chris Kennedy	Organisational review, capital return strategy, effectiveness of CFO function
Mike Muller	IoT strategy and organisation, R&D oversight to ensure long-term technology pipeline, university relationships
Tim Score	Transitioning CFO role and responsibilities

The individual multipliers approved by the committee for 2015 are shown in the table below.

Overall bonus outcomes (audited)

The executive directors received the following bonus payments in respect of performance in 2015.

Executive director	Salary £000	Bonus outcome (% of salary)	Individual multiplier	Total bonus outcome (% of salary)	Bonus paid £000
Simon Segars	575	59.81%	1.1	65.79%	**378**
Chris Kennedy*	158	59.81%	1.1	65.79%	**104**
Mike Muller	302	59.81%	1.0	59.81%	**181**
Tim Score	–	–	–	–	**–**

*Chris Kennedy's bonus was pro-rated from his start date of 1 September 2015.

Annual bonus for 2016

The bonus opportunity in 2016 will remain 85% of salary for target performance, subject to an individual multiplier and an overall maximum of 125% of salary. The committee continues to consider growth in revenue and profit as the most appropriate drivers to increase market share and continue the Group's outperformance of semiconductor market growth. The bonus structure for 2016 will be in line with that described above for 2015. The specific financial targets and individual performance conditions will be disclosed retrospectively in the 2016 Annual Report. The committee has recommended, and the Board is of the opinion, that the 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.

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".

Former DAB Plan vesting in 2016

Shares representing the deferred element of bonus earned in 2012 and awarded in 2013 vested on 11 February 2016 with the maximum 2:1 ratio of matching shares being earned. This ratio was achieved because the Group's performance equated to CPI plus 26.2% per annum compared to the upper limit of CPI plus 12% per annum on average for the three years making up the performance period, The amounts are shown below:

Executive director	Shares deferred as part of 2012 bonus awarded in 2013 Number	Matching shares granted Number	Matching shares value £000	Dividend shares vesting Number	Total award Number
Simon Segars	20,045	40,090	360	379	60,514
Mike Muller	18,900	37,800	340	357	57,057
Total	**38,945**	**77,890**	**700**	**736**	**117,571**

The market value of an ARM share on the date of vesting was 899 pence (based on the closing market price on the previous day).

In accordance with the rules of the DAB plan and the LTIP, on his retirement on 30 June 2015, Tim Score received the following shares calculated on a pro-rata basis and reflecting the extent to which the performance conditions were satisfied at that date:

DAB	Shares deferred as part of the bonus Number	Matching shares granted Number	Matching shares value £000	Total award Number
2013	28,637	48,523	456	77,160
2014	33,447	33,750	318	67,197
Total	**62,084**	**82,273**	**774**	**144,357**

LTIP	Conditional award Number	Vested award Number	Total award Number	Market value at vesting £000
2014 TSR	44,724	6,102	6,102	57
2014 EPS	44,725	20,793	20,793	196
Total	**89,449**	**26,895**	**26,895**	**253**

The market value of an ARM share on the date of vesting was 941 pence (based on the closing market price on the previous day).

LTIP vesting in 2016 (audited)

On 8 February 2013, the executive directors were granted awards under the LTIP with a face value of 100% of salary. The performance conditions were:

- TSR vs. FTSE 350 Index (50% of the awards) – threshold vesting for median TSR, increasing on a straight-line basis to full vesting for upper decile TSR.
- TSR vs. FTSE All World Technology Index (50% of the award) – threshold vesting for median TSR, increasing on a straight-line basis to full vesting for upper decile TSR.

Actual Company TSR over the period was 17.9% and below the median TSR for both comparator groups. Therefore, the performance conditions were not satisfied in respect of the performance period ended 31 December 2015 and therefore no shares vested.

LTIP – awards for 2015 (audited)

On 12 February 2015, Simon Segars and Mike Muller were granted awards under the LTIP; on 12 November 2015 Chris Kennedy was granted awards under the LTIP; details are provided in the table below. The three-year period over which performance will be measured will be by reference to results for the first quarter of 2015 against results for the fourth quarter of 2017 in respect of normalised EPS, and measured over 1 January 2015 to 31 December 2017 in respect of TSR.

Executive director	Date of grant	Awards made during the year	Market price on date of grant**	Face value on date of grant £000	Basis of grant (% of salary)	Maximum award (% of salary)
Simon Segars	12 February 2015	99,183	1,087p	2,156	187.5%	375%
Chris Kennedy*	12 November 2015	27,911	1,053p	588	187.5%	375%
Mike Muller	12 February 2015	52,155	1,087p	1,134	187.5%	375%

* Award for Chris Kennedy pro-rated from his start date.

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

The award is eligible to vest in its entirety on the third anniversary of the date of grant, subject to meeting performance conditions. Executive directors will additionally be required to hold 50% of any vested awards, with 25% released after four years and another 25% released after five years.

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

Annual Report on remuneration continued…

The EPS range was set for awards made in 2014 following consultation with shareholders and remained 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.

The performance conditions for the 2015 LTIP awards were as follows:

EPS (50% of award): 25% of the maximum award 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% p.a. (including CPI).

TSR vs. FTSE 350 Index (25% of award): 25% of the maximum award vests at median and 100% vests at upper quintile (straight-line in between).

TSR vs. FTSE All World Technology Index (25% of award): 25% of the maximum award vests at median and 100% vests at upper quintile (straight-line in between).

LTIP awards for 2016

The following conditional awards over ordinary shares were made under the LTIP on 11 February 2016:

Executive director	*Date of grant*	*Awards made during the year*	*Face value on date of grant (% of salary)*
Simon Segars	11 February 2016	127,224	375%
Chris Kennedy	11 February 2016	104,021	375%
Mike Muller	11 February 2016	66,219	375%

The mid-market closing price of an ordinary share on 10 February 2016, being the business day prior to the date of these conditional awards, was 899 pence.

Following review in December 2015, the committee has decided that the performance conditions should continue unchanged for 2016.

Pensions (audited)

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 base 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). Contributions to the scheme or the alternative cash allowance were fully paid with respect to the year. None of the executive directors has any entitlement to participate in a defined benefit pension scheme.

New Chief Financial Officer package

The appointment of Chris Kennedy as Chief Financial Officer designate was announced on 8 January 2015 and he joined the Board as an executive director and Chief Financial Officer on 1 September 2015. The key elements of his agreed package for 2015, which are in line with our approved Remuneration Policy, are set out below. The below package was detailed in the 2014 Annual Report on Remuneration. Please note the comments in the Remuneration Committee Chairman's letter regarding shareholder feedback received, and the Group's response.

Salary – £475,000, determined in January 2015.

Bonus – maximum 125% of salary, pro-rated for actual service in 2015 (four months), 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) was made in January 2016 to compensate for part of the equity benefits foregone in his previous role. The award 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). The units will vest in equal tranches over four years and be subject to forfeiture over the period.

In determining the buy-out awards (i.e. the one-off cash award and the RSU award), the committee considered a number of factors including the performance conditions attached to awards foregone, the likelihood of those conditions being met and the remaining vesting period of these awards. The total fair value of the awards is less than those foregone at easyJet plc, and the quantum reflects the strong likelihood of Chris Kennedy's easyJet awards vesting in full. In terms of structure, cash and RSUs were chosen for simplicity and value for money for ARM shareholders, respectively.

LTIP award – an award in line with the approved Remuneration Policy, pro-rated for actual service in 2015 (four months), subject to the same performance conditions as apply to the other executive directors.

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

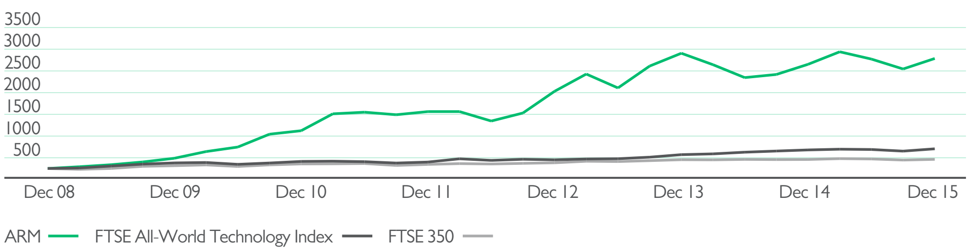
Performance graphs

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 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.

The TSR for the Company's shares was 1,175% over this period compared with 210% for the FTSE All World Technology Index for the same period.

ARM total shareholder return performance from 31 December 2008 to 31 December 2015



CEO's pay for the last seven financial years

Year	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Warren East (retired 30 June 2013)	2,011	7,571	7,745	6,710	3,416	–	–
Simon Segars (appointed CEO 1 July 2013)	–	–	–	–	2,065	2,284	1,463
CEO's total single figure £000*	2,011	7,571	7,745	6,710	5,481	2,284	1,463
Bonus % of maximum award %	67%	100%	100%	85%	91%	44%	53%
LTIP % of maximum vesting %	91%	100%	100%	100%	92%	47%	–
DAB matching % of maximum vesting %	0%	100%	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. The 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 percentage of maximum awards and vesting achieved in 2013 are those received by Simon Segars.

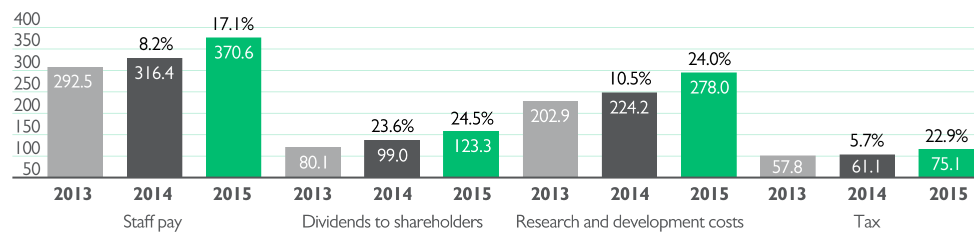
Comparison of CEO and employee pay and benefits (unaudited)

The table below shows the percentage change in the Chief Executive Officer's remuneration from the prior year compared to the average percentage change in remuneration for all other employees. To provide a meaningful comparison, the analysis includes only salaried employees and is based on a consistent set of employees, i.e. the same individuals appear in the 2015 and 2014 populations.

Director	*CEO*	*Employees*
Increase, from 2014 to 2015, in:		
Base salary	11.65%	4.78%
Benefits	-29.14%	7.78%
Bonus	34.70%	22.64%

The following information is unaudited:

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. Staff pay includes salary, bonus, social security costs, pension and healthcare costs and share-based payment charges.

Compensation for loss of office (audited)

Tim Score retired from the board on 30 June 2015. His leaving arrangements are in line with those set out in his contract, i.e. a 12 month notice period providing salary and contractual benefits until the termination date. He did not receive an annual bonus or LTIP award in respect of 2015. His outstanding LTIP and DAB awards were adjusted in line with the Remuneration Policy for a good leaver at the time the awards were made, i.e. pro-rated to his termination date and vesting immediately, subject to performance.

Annual Report on Remuneration continued…

The committee notes that the Group's LTIP leaver provisions were reviewed during the year, and minor revisions were made to further align with market practice and best practice. In particular, in respect of awards made in 2015 and future years, good leavers' awards will vest on the normal vesting date rather than immediately on termination, and any holding period will apply.

Payments to past directors (audited)

No payments were made to past directors during 2015.

The potential awards held by the executive directors under the LTIP and DAB Plan as at 31 December 2015 are as follows (audited):

Director	*Date of award*		*Potential number of shares receivable at threshold Number*	*Maximum potential number of shares receivable Number*	*Market value at date of award £*	*Maximum potential value at date of award £000*
Simon Segars	8 February 2013	LTIP	16,224	64,898	9.245	600
		DAB	6,013	40,090	9.245	371
	13 August 2013	LTIP	5,640	22,560	8.865	200
	8 February 2014	LTIP	53,885	215,540	8.96	1,931
		DAB	9,098	60,654	8.96	543
	12 February 2015	LTIP	49,591	198,366	10.87	2,156
Total LTIP			**125,340**	**501,364**		**4,887**
Total DAB			**15,111**	**100,744**		**914**
Chris Kennedy (appointed 1 September 2015)	12 November 2015	LTIP	13,955	55,822	10.53	588
Total LTIP			**13,955**	**55,822**	**–**	**–**
Mike Muller	8 February 2013	LTIP	15,413	61,654	9.245	570
		DAB	5,670	37,800	9.245	349
	8 February 2014	LTIP	30,714	122,858	8.96	1,101
		DAB	6,750	45,002	8.96	403
	12 February 2015	LTIP	26,077	104,310	10.87	1,134
Total LTIP			**72,204**	**288,822**		**2,805**
Total DAB			**12,420**	**82,802**		**752**

Chairman and non-executive directors' remuneration

In line with fee arrangements in place in other companies of similar size and complexity, the Company implemented the following fee arrangements from 1 January 2016:

› Chairman fee of £400,000 per annum.

› A standard NED fee of £65,000 per annum. This was increased from £60,000 in 2015, and was adjusted after careful review, to reflect ARM's position in the FTSE-100 and the increasing scale and complexity of the business.

› Additional fees for Committee Chairmen of £20,000 per annum and for the Senior Independent Director of £16,000 per annum (last increased in 2015) to more fairly reflect the workload undertaken by them.

Fees paid to the Chairman will remain at the same level in 2016 as for 2015, as will the additional fee paid to Committee Chairman and the Senior Independent Director.

The fees paid to the Chairman and the non-executive directors in respect of 2014 and 2015 and proposed to be paid in 2016 are set out below:

Director	*Total proposed fee for 2016 £000*	*Actual fee 2015 (audited) £000*	*Actual taxable benefits 2015*** (audited) £000*	*Actual total 2015 (audited) £000*	*Actual fee 2014 (audited) £000*	*Actual taxable benefits 2014*** (audited) £000*	*Actual total 2014 (audited) £000*
Stuart Chambers	**400**	**400**	**7**	**407**	338	10	348
Lawton Fitt (appointed 1 September 2015)**	**85**	**20**	**1**	**21**	–	–	–
Andy Green*	**81**	**60**	**2**	**62**	64	4	68
Larry Hirst	**85**	**80**	**1**	**81**	76	2	78
John Liu (appointed 1 December 2014)**	**65**	**62**	**1**	**63**	5	1	6
Stephen Pusey (appointed 1 September 2015)	**65**	**20**	**–**	**20**	–	–	–
Janice Roberts**	**65**	**67**	**1**	**68**	68	1	69
Kathleen O'Donovan (retired 31 December 2015)	**–**	**96**	**–**	**96**	92	1	93

* 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, Lawton Fitt £2,000 per meeting. This is to reflect their additional time commitment. This figure is not reflected in the total proposed fee for 2016.

*** Taxable benefits consist of expenses paid to non-executive directors to travel to UK Board meetings.

Non-executive directors' shareholdings in the Company (audited)

Director	Shareholding at date of report Number	Shareholding at 31 December 2015 or date of retirement if earlier Number
Stuart Chambers	**40,000**	40,000
Lawton Fitt (appointed 1 September 2015)	**210**	210
Andy Green	**5,250**	5,250
Larry Hirst	–	–
John Liu	–	–
Stephen Pusey (appointed 1 September 2015)	**6,329**	6,239
Janice Roberts	**–**	–
Kathleen O'Donovan (retired 31 December 2015)	**–**	–

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.

Directors' shareholdings in the Company (audited)

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 41. All of the executive directors have holdings well in excess of this requirement, with the exception of Chris Kennedy who is yet to build sufficient holding, having joined the Group on 1 September 2015.

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

	Shares						
Director	Owned outright and vested at date of report	Owned outright and vested at 31 December 2015 or date of retirement if earlier	Vested but subject to holding at 31 December 2015	Unvested and subject to deferral at 31 December 2015	Unvested and subject to performance conditions at 31 December 2015	Shareholding at 31 December 2015 (% of salary/fee)	Requirement met? (based on share price on 31 December 2015 of 1039p)
Simon Segars	668,432	630,660	–	–	602,108	1,140	Yes
Chris Kennedy	20,256	20,256	–	90,218	55,822	44	No
Mike Muller	1,336,000	1,305,760	–	–	371,624	4,487	Yes
Tim Score (retired 30 June 2015)	n/a	799,454	n/a	n/a	n/a	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.

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 since the end of the 2015 financial year up to the date of approval of the Remuneration Report.

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, 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 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 world wide 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 3.8%.

Annual Report on remuneration continued…

External roles

It is the Company's policy to allow executive directors to hold a non-executive position at another company 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 and the award vested in full on 1 February 2016 with a market value of $35.78 per share. On 2 February 2016, he was granted a further award of 7,575 RSUs with a market value of $35.73 per share, which will vest in full on 1 February 2017. In addition, Simon Segars received fees totalling $40,673 up to 31 December 2015 (2014: n/a). Mike Muller is a non-executive director of Intelligent Energy plc and he received fees totalling £53,000 up to 31 December 2015 (2014: £49,110). Chris Kennedy will take up a position as a non-executive director at Whitbread plc on 1 March 2016 and his remuneration will be disclosed in the 2016 Annual Report.

Remuneration Committee

In this section we describe the composition and activities of the committee during 2015.

Committee composition and meeting attendance during 2015:

Name of director	*Position*	*Meetings attended/eligible meetings*
Larry Hirst	Independent non-executive director	5/5
Andy Green	Independent non-executive director	5/5
Janice Roberts	Independent non-executive director	5/5

Stephen Pusey joined the committee on 1 January 2016.

Given their diverse business experience, the independent non-executive directors who made up the committee in 2015 offer a balanced view and international expertise in relation to remuneration matters for the Group. Their biographies appear on pages 6 to 7.

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 input. 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. None of these individuals are 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 http://www.arm.com/committees.

The principal items of business dealt with by the committee during 2015 and early 2016 are described in the Committee Chairman's initial letter on page 25.

External advisers

The committee has access to independent professional advice on remuneration matters. Following a competitive tender process, Mercer Limited (Mercer) was appointed by the committee in April 2014 and also provides advice to management on reward for the wider workforce. 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 it has given since appointment, committee members are satisfied that its advice is objective and independent and that its 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 2015 included analysis and advice on the design of executive reward and the new share matching plan, review and making recommendations in relation to the Directors' Remuneration Report for 2015, analysis of executive benchmarking data and preparation for and attendance at Remuneration Committee meetings. The committee also received advice from Kepler Associates (Kepler) (subsequently acquired by Mercer in June 2015) 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 calculation of share compensation charges.

Fees paid to external advisers in the year were:

Name of advisor	*Fee*	*Work undertaken*
Mercer	£61,185	Analysis and advice on executive director and broader executive packages, specific review of TSR comparator groups applicable to ARM, review and recommendation in relation to DRR for 2015, analysis of executive benchmarking data, preparation for and attendance at Remuneration Committee meetings, advice to the People team on aspects of reward and incentive.
Kepler	£7,200	Independent verification of TSR, provision of a valuation model for the LTIP.

2014 AGM – vote on Remuneration Policy

At the 2014 AGM voting on the Remuneration Policy was as follows:

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).

2015 AGM – Statement of voting

At the 2015 AGM voting was as follows:

Annual Report on Remuneration 67.9% vote in favour out of a total of 1,089,913,024 votes cast (with 32.1% votes against and 21,040,764 votes withheld).

Feedback from our shareholders ahead of the vote indicated concerns about the recruitment buy-out award for our new Chief Financial Officer, Chris Kennedy. In particular there were concerns that part of the award was in cash (subject to clawback) and that none of the award was subject to explicit performance conditions.

The Remuneration Committee has discussed the feedback received and understands the position of shareholders on this issue. The committee will take the feedback provided into account in the event of future executive director recruitment and when a new Remuneration Policy is submitted at the 2017 AGM.

Remuneration Policy

The Directors' Remuneration Policy in the table on pages 39 to 43 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 Investment Association's Principles of Remuneration revised in November 2015.

Annual Report on remuneration continued…

The committee considers 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 have been 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 was retained. This increased to 50% for 2015 onwards.

Service contracts

In accordance with Code Provision D.1.5, 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
Chris Kennedy (joined 1 September 2015)	17 January 2015
Mike Muller	31 January 1996
Tim Score (retired 30 June 2015)	1 March 2012

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 http://www.arm.com/board.

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.

Remuneration Policy

Remuneration Policy for executive directors

Component of remuneration package and how it supports business strategy	*Operation and clawback*	*Maximum potential value*	*Performance conditions, targets assessment and areas of discretion*
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.	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: › Pay levels at companies of similar size (by reference to market capitalisation and revenue) on a geographic and global basis. › External market conditions. › Pay and benefits elsewhere in the Group. › Individual performance, skills, experience and potential. › Corporate performance on environmental, social and corporate governance issues. Clawback does not apply to base salary (in accordance with contractual agreements).	Base salaries are set at an appropriate level for each role, taking account of the factors described in this table. Generally, salaries are no higher than market median, although higher salaries may be paid, if necessary, to recruit externally or to retain key executives. In normal circumstances base salary increases will be determined by reference to average increases for employees across the Group. 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.	None, although the overall performance of each executive director is considered by the committee when reviewing base salaries. 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. Fees for outplacement and legal advice may also be paid by the Group.
Performance-related bonus (in respect of 2014 financial year onwards) To incentivise executive directors to achieve performance objectives that are directly linked to the Group's short-term financial and strategic goals.	Bonus, if earned, is paid wholly in cash for 2014 onwards. Paid annually after the Preliminary Announcement for the prior year end. Bonus payments are not pensionable. Individual performance measures are focused on objectives that are specific to each executive director. Clawback: 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.	Maximum bonus: 125% of base salary. Bonus payable at target: 85% of base salary. 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. Bonus payable at threshold: 0% of base salary Threshold means the minimum level of performance before bonus starts to accrue.	Amount is subject to achievement of two performance targets and then adjusted for individual performance: › NOP (50% of target bonus). › Total revenue (50% of target bonus). › Individual performance measures specific to each executive director, which flex the amount of bonus by a factor of 0.75 to 1.25. Revenue and profit growth are regarded as the most appropriate short-term metrics for continuing the Group's performance. The committee retains discretion to adjust bonus targets for any financial year to reflect intervening events including acquisitions or disposals. 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.

Remuneration Policy continued…

Component of remuneration package and how it supports business strategy	Operation and clawback	Maximum potential value	Performance conditions, targets assessment and areas of discretion
Performance-related bonus (in respect of years up to and including 2013) To incentivise executive directors to achieve performance objectives that are directly linked to the Group's short-term financial and strategic goals. Revenue and profit growth are regarded as the most appropriate short-term metrics for continuing the Group's performance.	Bonus earned in respect of 2013 was subject to the provisions of the DAB Plan. This was the final operation of the DAB Plan. Bonus was split 50% cash and 50% deferred shares based on NOP, total revenue and individual performance. There is compulsory deferral into shares for three years. 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. Deferred and any matching shares in relation to 2013 performance will be received in February 2017. Dividend shares are added at vesting.* 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.	Maximum and target bonus opportunity of 150% and 100% of salary respectively.	The targets for the 2013 bonus were: › 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. › 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. › 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. › 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. › 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.
Long Term Incentive Plan 2013 (first operation in 2014) To incentivise executive directors to achieve performance objectives that are directly linked to the Group's long-term financial and strategic goals. To align executive directors' interests with those of the shareholders through the performance conditions and share retention obligations.	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. 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. Dividend shares are added at vesting. Malus: 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. Clawback: 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.	Maximum limit of 600% in exceptional circumstances as determined by the committee. 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.	› For the 2014 award vesting is based on: › Three-year Total Shareholder Return (TSR) growth relative to the FTSE All-World Technology Index (25%). › Three-year TSR growth relative to the FTSE 350 (25%). › 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). › 25% of the respective TSR elements vest for median performance with 100% vesting for upper quintile performance. 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. The committee will review the performance conditions for new awards annually. 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.

Component of remuneration package and how it supports business strategy	*Operation and clawback*	*Maximum potential value*	*Performance conditions, targets assessment and areas of discretion*
Shareholding requirement 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.	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. Unvested DAB Plan shares do not count towards the shareholding requirements.		
Long Term Incentive Plan (in respect of years up to and including 2013) To incentivise executive directors to achieve performance objectives that are directly linked to the Group's long-term financial and strategic goals. To align executive directors' interests with those of the shareholders through the performance conditions and share retention obligations.	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. Dividend shares are added at vesting.	Maximum award limit of 400% in exceptional circumstances was never used.	Vesting is based on: › Three-year TSR growth relative to the FTSE All World Technology Index (50%). › Three-year TSR growth relative to the FTSE 350 (50%). › 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). The committee has discretion to waive or change a performance condition in the event of circumstances which cause the committee to reasonably consider that: (a) the amended Performance Condition would be a fairer measure of performance and would be no easier to satisfy; or (b) the Performance Condition should be waived.
Pension To provide pension contributions in line with market practice, which will enable directors to plan for retirement.	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.	11% of base salary.	Not applicable.
Other benefits 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.

Remuneration Policy continued…

Component of remuneration package and how it supports business strategy	*Operation and clawback*	*Maximum potential value*	*Performance conditions, targets assessment and areas of discretion*
Overseas benefits/Relocation allowances 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.
One-off recruitment cash/equity awards 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.	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. Alternatively, a cash payment or an additional LTIP award may be made to compensate. Payment may be on taking up appointment or to coincide with vesting dates under the previous employer's plan. Malus and clawback provisions would apply.	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.	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.
Other Contributory Equity Plans Executive directors are eligible to participate in the share plan applicable to the country where they work. These plans provide an opportunity for executive directors to voluntarily invest in the Group.	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.	The maximum participation limits will not exceed those set by the relevant tax authorities from time to time.	Not applicable.
Fees for non-executive roles held outside the Group 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.	Executive directors are permitted to retain any fees paid and/or shares offered in connection with external non-executive roles that they undertake.	The amounts received are disclosed annually. Details are provided on page 36.	Not applicable.

Component of remuneration package and how it supports business strategy	*Operation and clawback*	*Maximum potential value*	*Performance conditions, targets assessment and areas of discretion*
Non-executive directors' (NED) and Chairman's fees 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 other Committee Chairmen. To pay fees that reflect responsibilities and workload undertaken, and which are competitive with peer companies.	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. NED appointments are terminable on three months' notice. Fees are reviewed on an annual basis and take account of fees paid for similar roles by peer companies. 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. 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.	Fees are set at an appropriate level taking into account the factors outlined in this table. Additional fees are paid to the SID and Committee Chairmen. 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.	Not applicable.
Legacy arrangements (pre 27 June 2012)	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.

Directors' report
Additional disclosures

The Directors' report comprises pages 44 to 49 of this report, together with the sections of the Annual Report incorporated by reference.

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2015. 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 2014).

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, system IP, graphics processors, 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 nine offices in the US, three in PR China and six 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 104 to 105.

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

More information about the business, its operations and key performance indicators is set out in the Strategic Report in the Overview on pages 4 to 8, the Marketplace section on pages 9 to 15, the Financial Strategy section, on pages 52 to 54, the Risk Management section on pages 35 to 39, and the Corporate Responsibility summary on pages 44 to 45. The Group's statement on corporate governance can be found in the Corporate Governance report on pages 8 to 16 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.

Business model

A detailed description of ARM's business model is set out on pages 24 to 25 of the Strategic Report.

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 £107.8 million and share buybacks of £92.2 million, the highly cash generative nature of the business enabled the Group to increase its cash, cash equivalents and deposits to £950.9 million (net of accrued interest of £5.4 million) at the end of 2015. This was an increase from £861.7 million (net of accrued interest of £4.6 million) at the start of the year. After reviewing the 2016 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.

Longer-term viability statement

The directors have assessed the viability of the Group over a three-year period to December 2018, taking account of the Group's current business and the potential impact of the principal risks and uncertainties documented in pages 35 to 39 of the Strategic Report. The longer-term viability statement can be found on page 35 of the Strategic Report.

Risk management and internal controls

A description of the main features of the Group's risk management framework and internal controls in relation to the preparation of the consolidated accounts can be found on pages 12 to 15 of the Governance & Financial Report.

Dividends

The directors recommend payment of a final dividend in respect of the year to 31 December 2015 of 5.63 pence per share which, subject to approval at the AGM on 28 April 2016, will be paid on 13 May 2016 to shareholders on the register on 22 April 2016. This final dividend, combined with the interim dividend of 3.15 pence per share paid in October 2015, makes a total of 8.78 pence per share for the year, an increase of 25% on the total dividend of 7.02 pence per share for 2014. The total cost of dividends paid or to be paid in respect of the year to 31 December 2015 is approximately £123 million.

Share buyback programme

The Group bought back 9,000,000 shares with a nominal value of 0.05 pence per share during 2015 at an average cost of 1,024 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. 750,000 shares have been re-purchased to date in 2016. The rolling authority to buy back shares given by the shareholders at the AGM in May 2015 remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2016 AGM.

Research and development (R&D)

Development of IP is at the heart of the Group's activities and 74% 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 the University of Michigan.

Key areas of product development for 2016 include the development of further energy-efficient, high-performance processors, such as ARM cores based on symmetric multicore and superscalar technology. Recent acquisitions are also expected to have a positive impact on future innovation in R&D.

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

The Group incurred R&D expenses of £278.0 million in 2015, representing 29% of revenues, compared with £224.2 million in 2014, representing 28% of revenues. R&D expenses have been charged in full to the income statement.

Donations

The directors decided that an increase in charitable giving was appropriate during 2015 and the Group made donations as follows:

	2015 £000	*2014 £000*
Education	1,141	926
Health	722	117
Environment	103	101
Communities	101	117
Other	52	72
Total	**2,119**	**1,333**

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 http://www.arm.com/CR.

Global greenhouse 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_2e contributors. We have excluded non-material emissions related to refrigerant losses in air conditioning systems, motor cars and waste streams.

2015 saw an improvement in our carbon performance based on intensity per employee in terms of our purchased electricity (scope 1 and 2). This reduction is due to continued growth in our headcount during 2015 increasing at a more rapid rate than the growth in our overall estate. Our Scope 3 emissions, which mainly consist of air travel, remained stable during 2015. Based on headcount intensity we achieved an 11% improvement on our 2014 data. This was as a result of slightly fewer flight segments being flown coupled with an increase in headcount.

Methodology

The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the location-based scope 2 calculation method, together with the latest emission factors from recognised public sources including, but not limited to, Defra, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental panel on Climate Change.

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

Reported Emissions	*2015*	*2014*
Scope 1 and 2 Emissions		
Combustion of Fuel, Operation of Facilities, Electricity and Cooling Purchased (tonnes CO_2e)	14,978	13,741
CO_2e Intensity (Tonnes CO_2e per Employee)	3.57	3.82
Scope 3 Emissions		
Business Travel (Tonnes CO_2e)	11,514	11,642

The Group's ongoing environmental impact analysis informs management about key environmental factors and how it can reduce the impacts associated with them. The Group continued to enhance its environmental data collection and reporting ability during 2015 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.

In 2015, ARM continued to strive for environmental accreditation in its new build projects. Our Austin design centre which completed in 2015, had environmental performance incorporated into the design brief and is expected to achieve Leadership in Energy and Environmental Design (LEED) Gold Accreditation. These building standards ensure high environmental performance of the Group's built environment throughout its entire lifecycle.

Directors' report continued…

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 and in our new Bangalore office space we have fitted IoT LED lighting. 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'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.

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. A description of the Nomination Committee's approach to diversity is on page 24 of the Nomination Committee report.

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. The Group 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.

ARM University Programme

The ARM University Programme aims to train the next generation of engineers on ARM and Partner-based technologies through the production and dissemination of high-quality teaching materials and education kits to universities worldwide. By working closely with our ecosystem using various partnership models, the programme once again doubled its adopted course and laboratory base worldwide in 2015 following a similar expansion in each of 2013 and 2014.

2015 also saw the development of new educational and training materials, and e-courseware products, which have been successfully licensed to various partners worldwide. The online deployment of our educational products in particular is scaling up the programme's reach considerably. In addition, we have finalised the design of an infrastructure for an e-textbook publishing activity which will go hand-in-hand with our e-courseware production activity. To further extend the benefits of our approach, the programme also developed a government relations strategy and plan in 2015, which is already bearing fruit, especially in China. Government relations are crucial to widening the adoption of standard educational formats and products, which the ARM University Programme is developing for the benefit of the ARM ecosystem as well as the wider education system. Indeed, we believe that the future success of STEM education depends on a much closer partnership between government, industry and educational institutions including schools and universities.

The Group and our Partners are seeing an increased benefit from the ARM University Programme's activities as it educates hundreds of thousands of students worldwide utilising ARM technologies, preparing them for the vast and varied employment opportunities available in the ARM ecosystem.

Directors in the year

The following served as directors of the Company during the year ended 31 December 2015 and up to the date of signing:

- Stuart Chambers (Chairman)
- Simon Segars (Chief Executive Officer)
- Chris Kennedy (Chief Financial Officer – appointed 1 September 2015)
- Mike Muller (Chief Technology Officer)
- Lawton Fitt (independent non-executive director – appointed 1 September 2015)
- Andy Green (Senior Independent non-executive Director from 1 January 2016)
- Larry Hirst CBE (independent non-executive director)
- John Liu (independent non-executive director)
- Stephen Pusey (independent non-executive director – appointed 1 September 2015)
- Janice Roberts (independent non-executive director)
- Tim Score (Chief Financial Officer – retired 30 June 2015)
- Kathleen O'Donovan (Senior Independent Director and financial expert – retired 31 December 2015)

Election and re-election of directors

Chris Kennedy joined the Board on 1 September 2015 as Chief Financial Officer and Lawton Fitt and Stephen Pusey joined the Board on 1 September 2015 as independent non-executive directors 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 Code, 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 on page 35.

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.

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 2015 or to date in 2016, 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.

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 2015 AGM, the directors were given authority to buy back a maximum number of 141,146,510 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 2016 AGM or 30 June 2016.

During 2015 a total of 9,000,000 shares were re-purchased and are held in treasury. Share buybacks 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 2016 AGM to give ARM authority to acquire up to 140,966,995 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.

Directors' report continued…

Share capital

At 31 December 2015, ARM's share capital comprised a single class of ordinary shares of 0.05 pence each and there were 1,412,436,842 ordinary shares in issue, of which 7,231,108 were held in treasury (2014: 7,852,543 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. 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; and
- 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 15 February 2015:

	Percentage of issued
Baillie Gifford & Co	9.57
BlackRock, Inc.	5.08
Thornburg Investment Management	5.01
Fidelity Management and Research Corporation	4.92
The Capital Group Companies, Inc.	3.02

Save for the above, the Company has not been notified, as at 15 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.

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 customer accounted for more than 10% of Group revenues in 2015 (2014: none).

Annual General Meeting (AGM)

The AGM will be held at 110 Fulbourn Road, Cambridge CB1 9NJ, UK, on 28 April 2016 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 2016, 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; and
- 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; and
- this Directors' report on pages 44 to 49 and, within the Strategic Report, the Financial strategy section on pages 52 to 54 and the Risk management sections on pages 35 to 39 comprise 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

Philip Davis
Company Secretary
ARM Holdings plc
Company Number: 2548782

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 2015 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

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

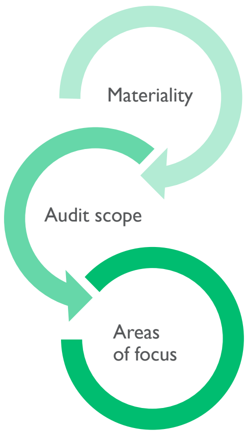
- the consolidated balance sheet as at 31 December 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in shareholders' equity for 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, 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



- Overall Group materiality: £20.7 million which represents 5% of profit before taxation.
- We conducted full scope audit procedures over ARM Limited and ARM Inc.
- We performed specific audit procedures over certain account balances and transaction classes in other Group companies, focusing in particular on staff costs as total staff costs for the Group represent over 70% of the Group's operating expenses.
- Taken together, the Group companies over which we performed our audit work accounted for over 99% of the Group's third-party revenues and over 80% of the Group's expenses, profit before tax and net assets.

Our audit focused on the following areas based on materiality and risk:

- Revenue recognition;
- Valuation of intangible assets arising on the acquisition of Sansa Security ("Sansa");
- Litigation and accounting for responses to Intellectual Property ("IP") risk;
- Taxation; and
- Share-based payment charges.

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 made subjective judgements, for example in respect of significant accounting estimates that involved making 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

Revenue recognition

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.

The timing of licence revenue recognition (which makes up 39% of the Group's gross revenue of £968.3 million) is inherently complex.

Recognition of licence revenue involves a number of significant judgements by the directors, including:

- 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;
- 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);
- determining the point at which the inflow of cash can be deemed probable where a contract includes extended payment terms; and
- assessing the degree of completion of contracts which are accounted for on a "percentage of completion" basis.

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.

In addition, ISAs (UK & 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.

How our audit addressed the area of focus

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. **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.** We read a sample of licence contracts selected on a high value basis and assessed whether the revenue recognition methodology and the Group's accounting policy 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 by considering alternative judgements that could have been made.

We evaluated and challenged the significant judgements (including assumptions used) and estimates made by management in applying the Group's accounting policy to specific contracts and separable elements of contracts by considering alternative judgements or assumptions that could have been made, and we obtained evidence to support them, including details of contractual agreements, delivery records, time records/sheets, cash receipts and project plans. **We noted no instances of inappropriate revenue recognition arising in our testing.**

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.**

We challenged judgements made by the directors in determining whether the inflow of cash on future billing milestones could be considered probable by assessing the terms of the related contracts, the payment history of customers to whom such billing terms have been extended, and any external factors that provided evidence of a customer's ability and intent to pay such amounts. **We did not identify any instances of inappropriate recognition of revenue under extended billing milestones through our testing.**

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 outturn of judgements made in prior periods. **We did not identify any material exceptions in our testing.**

We tested royalty revenues by agreeing a sample of amounts recognised to customer notifications and cash receipts. **No material exceptions were noted from our testing.**

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. **No such items were identified from our testing.**

Area of focus

Valuation of intangible assets arising on the acquisition of Sansa Security ("Sansa")

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 19 for further information.

On 30 July 2015, the Group completed the acquisition of Sansa for consideration of $71.3 million (£46.0 million), as described in note 19.

Accounting standards require that all assets and liabilities acquired in the business combination are recorded at fair values on acquisition. Judgement is required in identifying and valuing all the assets and liabilities acquired, in particular intangible assets. Intangible assets totalling $17.8 million (£11.5 million) were identified relating to technology and in-process research and development. The key judgements were in determining an appropriate methodology to value these assets and appropriate assumptions, including forecast revenue and profit, discount rate, useful economic lives and rates of obsolescence to determine the values.

As the valuation of the intangible assets identified was immaterial to the Group, we focused on the risk of potential bias towards understatement of cash flows or overly conservative assumptions in order to reduce the valuation of intangible assets subject to amortisation and therefore reduce the amortisation impact on the Group's income statement in future periods.

How our audit addressed the area of focus

We evaluated the process used by the directors to identify intangible assets acquired in the business combination, considering the rationale for the acquisition and the nature of the Sansa business. **We were satisfied that there were no material identifiable intangible assets other than those identified by management.**

Using our valuation specialists, we evaluated the methodology and assumptions used by the directors in valuing the identified intangible assets. We evaluated the forecasts used and key assumptions made as follows:

- We challenged revenue and profit growth assumptions (in relation to both the legacy businesses of Sansa and its future, in development revenue streams) by considering the top down method by which these forecasts were prepared and comparing the forecasts to the historical performance and stability of the Sansa business;
- We corroborated the discount rate used by recalculating Sansa's weighted average cost of capital using industry benchmarks and comparing this to the discount rate applied;
- We challenged the useful economic lives and technology obsolescence rates by comparing these to other recent acquisitions and the expected period over which these technologies were expected to continue to generate future cash flows; and
- We sensitised the impact of a reasonable change in the forecasts and assumptions used and considered whether these materially impacted on the valuation of acquired intangible assets.

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

Area of focus	*How our audit addressed the area of focus*
	We were satisfied that, though alternative valuation methods could have been applied to the valuation of acquired technology, the methodology applied did not have a material impact on the valuation of these assets. **We were satisfied that the fair value of acquired intangible assets was supportable, and that the assumptions used in valuing the intangible assets were within an acceptable range. We were satisfied that there was no evidence of bias in assumptions and forecasts used by the directors to reduce the valuation of intangible assets subject to amortisation. We found that the valuation of acquired intangible assets was not materially sensitive to a reasonable change in the forecasts and assumptions used by management.**
Litigation and accounting for responses to Intellectual Property ("IP") risk *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 23 for further information.* The Group has exposure to patent infringement disputes, sometimes directly, but in most cases through indemnity provisions in its contracts with customers. Judgements are made in determining the extent and amount of any provisions required or disclosures made for contingent liabilities.	We discussed litigation with the Group's in-house legal counsel and obtained direct confirmations from external legal advisers. We assessed the adequacy of provisions recognised and disclosures made in the Group financial statements. **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.** 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. **We did not identify any material exceptions.**

Area of focus	*How our audit addressed the area of focus*
Taxation *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 6 for specific taxation disclosures.* The calculation of the Group's total tax charge of £75.1 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.	Using tax specialists 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 found no material exceptions in our testing.** 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. **The evidence that we obtained from reading this correspondence supported the directors' decisions regarding the level of tax provisioning.** 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. **We found no material exceptions in our testing**.
Share-based payment charges *See note 1b to the financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 20 for more information.* The calculation of the Group's share-based payment expense of £70.5 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 2015 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.	We tested the operating effectiveness of controls in place over the calculation and recording of the share-based payment expense. **We found the operation of these controls to be effective, which provided us with audit evidence that share-based payment charges had been recorded accurately and in the correct period, in accordance with the Group's accounting policies.** 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. **We did not identify any material exceptions in our testing.** We focused on and challenged the assumptions used in the Monte-Carlo option pricing model for the LTIP awards granted in 2015 by comparing them to external market data and other third-party evidence, and by considering the impact of reasonable alternative assumptions that could have been used. **We found that the assumptions used were comparable with market data and other third-party evidence, and assumptions fell within a reasonable range.**

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 38 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 over 99% of the Group's third-party revenues, and more than 80% of the Group's expenses, profit before tax and net assets. We performed full scope audit procedures at ARM Limited and ARM Inc.

We also performed specific audit procedures over certain account balances and transaction classes in other Group companies, focusing in particular on staff costs in other Group companies. We focused in particular on staff costs across the Group because total staff costs for the Group (including significant components) represented over 70% of the Group's operating expenses. Transactions subject to specified procedures represented approximately 4% of the Group's expenses.

All audit work in respect of the 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.

Materiality

The scope of our audit was 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 on the individual financial statement line items and disclosures and in evaluating 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:

Overall Group materiality	£20.7 million (2014: £15.7 million).
How we determined it	Consistent with last year, 5% of profit before taxation.
Rationale for benchmark applied	This is, in our view, the most relevant measure of the performance of the Group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (2014: £0.8 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 44, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are also required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. 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.

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

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:

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 Group acquired in the course of performing our audit; or › otherwise misleading.	We have no exceptions to report.
› 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.	We have no exceptions to report.
› 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.	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

› the directors' confirmation in the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
› the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
› the directors' explanation in the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group, set out on page 44. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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 ten further provisions of the 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 pages 48 to 49, 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 2015 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 2016

Consolidated income statement

For the year ended 31 December	Note	2015 £m	2014 £m
Revenues	2	968.3	795.2
Cost of revenues		(39.3)	(37.8)
Gross profit		929.0	757.4
Operating expenses			
Research and development		(278.0)	(224.2)
Sales and marketing		(106.1)	(93.2)
General and administrative		(138.8)	(131.0)
Total operating expenses		(522.9)	(448.4)
Profit from operations		406.1	309.0
Investment income		12.1	11.3
Interest payable and similar charges		(0.3)	(0.3)
Share of results in joint ventures	26	(3.1)	(3.5)
Profit before tax	5	414.8	316.5
Tax	6	(75.1)	(61.1)
Profit for the year		**339.7**	**255.4**
Earnings per share			
Basic and diluted earnings		**339.7**	**255.4**
Number of shares (millions)			
Basic weighted average number of shares		1,407.4	1,406.2
Effect of dilutive securities: Employee incentive schemes		12.9	14.9
Diluted weighted average number of shares		1,420.3	1,421.1
Basic EPS		24.1	18.2p
Diluted EPS		23.9	18.0p

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 94 to 100.

Details of dividends paid and proposed are in notes 7 and 25 of the financial statements respectively.

Consolidated statement of comprehensive income

For the year ended 31 December	Note	2015 £m	2014 £m
Profit for the year		**339.7**	255.4
Other comprehensive income:			
Unrealised holding gain on available-for-sale financial assets reclassified to income statement (net of tax of £1.1 million (2014: £nil))	10	(4.3)	–
Unrealised holding gain on available-for-sale financial assets (net of tax of £4.4 million (2014: £1.1 million))*	10	17.7	4.3
Currency translation adjustment*		32.1	34.6
Other comprehensive income for the year		45.5	38.9
Total comprehensive income for the year		385.2	294.3

*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	2015 £m	2014 £m
Assets			
Current assets:			
Cash and cash equivalents	16	**40.5**	54.1
Short-term deposits and similar instruments	16	**617.8**	620.8
Embedded derivatives	16	**6.9**	2.6
Accounts receivable	8	**183.7**	138.6
Available-for-sale financial assets	10, 16	**23.1**	–
Prepaid expenses and other assets	9	**51.6**	43.2
Current tax assets		**22.9**	8.9
Inventories		**1.8**	2.7
Total current assets		**948.3**	**870.9**
Non-current assets:			
Long-term deposits and similar instruments	16	**298.0**	191.4
Loans and receivables	16	**6.0**	3.0
Available-for-sale financial assets	10, 16	**11.6**	23.7
Investment in joint ventures	26	**2.6**	3.0
Prepaid expenses and other assets	9	**1.4**	1.7
Property, plant and equipment	11	**61.6**	43.4
Goodwill	12	**650.7**	567.0
Other intangible assets	13	**92.0**	77.2
Deferred tax assets	6	**48.0**	55.9
Total non-current assets		**1,171.9**	**966.3**
Total assets		**2,120.2**	**1,837.2**

The accompanying notes are an integral part of the financial statements. The financial statements on pages 56 to 93 were approved by the Board of directors on 17 February 2016 and were signed on its behalf by:

Simon Segars
Chief Executive Officer

Chris Kennedy
Chief Financial Officer

At 31 December	Note	2015 £m	2014 £m
Liabilities			
Current liabilities:			
Accounts payable	16	**12.7**	11.7
Fair value of currency exchange contracts	16	**3.2**	4.8
Accrued and other liabilities	14	**100.7**	80.6
Finance lease liabilities	15	**5.2**	3.9
Current tax liabilities		**30.6**	31.9
Deferred revenue		**110.1**	127.4
Total current liabilities		**262.5**	**260.3**
Non-current liabilities:			
Accrued and other liabilities	14	**6.3**	–
Finance lease liabilities	15	**6.1**	2.6
Deferred tax liabilities	6	**3.2**	0.4
Deferred revenue		**44.5**	45.6
Total non-current liabilities		**60.1**	**48.6**
Total liabilities		**322.6**	**308.9**
Net assets		**1,797.6**	**1,528.3**
Capital and reserves attributable to owners of the Company			
Share capital	17	**0.7**	0.7
Share premium account		**27.2**	24.9
Capital reserve		**354.3**	354.3
Share option reserve		**61.4**	61.4
Retained earnings		**1,213.3**	991.8
Revaluation reserve		**17.7**	4.3
Cumulative translation adjustment		**123.0**	90.9
Total equity		**1,797.6**	**1,528.3**

Consolidated cash flow statement

For the year ended 31 December	Note	2015 £m	2014 £m
Profit before tax		414.8	316.5
Investment income (net of interest payable and similar charges)		(11.8)	(11.0)
Share of results of joint ventures		3.1	3.5
Profit from operations		406.1	309.0
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets		42.0	35.6
Compensation charge in respect of share-based payments		70.5	68.5
Provision for impairment of available-for-sale financial assets		0.3	1.0
Profit on disposal of available-for-sale financial assets		(5.6)	(0.3)
Loss on disposal of property, plant and equipment		0.2	0.1
Provision for doubtful debts		(0.1)	0.3
Non-cash foreign currency losses		2.9	3.4
Movement in fair value of currency exchange contracts		(1.6)	9.9
Movement in fair value of embedded derivatives		(4.3)	(9.6)
Changes in working capital			
Accounts receivable		(37.2)	(4.0)
Inventories		0.9	0.3
Prepaid expenses and other assets		(17.4)	(9.9)
Accounts payable		0.4	4.5
Deferred revenue		(26.2)	(24.8)
Accrued and other liabilities		22.5	(11.6)
Cash generated by operations before tax		453.4	372.4
Income taxes paid		(73.9)	(30.8)
Net cash from operating activities		379.5	341.6

For the year ended 31 December	Note	2015 £m	2014 £m
Investing activities			
Interest received (net of interest paid of £0.3 million (2014: £0.3 million))		11.1	13.3
Purchases of property, plant and equipment		(30.5)	(20.4)
Purchases of other intangible assets		(10.5)	(10.0)
Purchases of available-for-sale financial assets		(3.8)	(5.0)
Proceeds on disposal of available-for-sale financial assets		6.4	2.2
Purchase of short- and long-term deposits and similar instruments, net		(102.8)	(145.1)
Purchase of subsidiaries, net of cash and borrowings acquired	19	(62.3)	(12.8)
Investment in joint ventures	26	(2.7)	–
Provision of loan to joint venture	16	(2.9)	–
Net cash used in investing activities		(198.0)	(177.8)
Financing activities			
Proceeds received on issuance of shares	17	2.3	6.8
Proceeds received on issuance of shares from treasury		7.1	–
Purchase of own shares	18	(92.2)	(66.9)
Dividends paid to shareholders	7	(107.8)	(86.1)
Repayment of borrowings		–	(1.2)
Repayment of finance lease liabilities		(5.1)	(6.4)
Net cash used in financing activities		(195.7)	(153.8)
Net (decrease)/increase in cash and cash equivalents		(14.2)	10.0
Cash and cash equivalents at beginning of the year		54.1	43.8
Effect of foreign exchange rate changes		0.6	0.3
Cash and cash equivalents at end of the year		40.5	54.1

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 December	Share capital £m	Share premium account £m	Capital reserve* £m	Share option reserve** £m	Retained earnings £m	Revaluation reserve*** £m	Cumulative translation adjustment £m	Total £m
	Attributable to the owners of the Company							
Balance at 1 January 2014	**0.7**	**18.1**	**354.3**	**61.4**	**820.6**	**–**	**56.3**	**1,311.4**
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
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**255.4**	**4.3**	**34.6**	**294.3**
Shares issued on exercise of share options and awards (note 17)	–	6.8	–	–	–	–	–	6.8
Dividends (note 7)	–	–	–	–	(86.1)	–	–	(86.1)
Purchase of own shares (note 18)	–	–	–	–	(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)
Balance at 31 December 2014	**0.7**	**24.9**	**354.3**	**61.4**	**991.8**	**4.3**	**90.9**	**1,528.3**

For the year ended 31 December	Share capital £m	Share premium account £m	Capital reserve* £m	Share option reserve** £m	Retained earnings £m	Revaluation reserve*** £m	Cumulative translation adjustment £m	Total £m
	Attributable to the owners of the Company							
Balance at 1 January 2015	**0.7**	**24.9**	**354.3**	**61.4**	**991.8**	**4.3**	**90.9**	**1,528.3**
Profit for the year	–	–	–	–	339.7	–	–	339.7
Other comprehensive income:								
Unrealised holding gain on available-for-sale financial assets (net of tax of £4.4 million)	–	–	–	–	–	17.7	–	17.7
Unrealised holding gain on available-for-sale financial assets reclassified to income statement (net of tax of £1.1 million)	–	–	–	–	–	(4.3)	–	(4.3)
Currency translation adjustment	–	–	–	–	–	–	32.1	32.1
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**339.7**	**13.4**	**32.1**	**385.2**
Shares issued on exercise of share options and awards (note 17)	–	2.3	–	–	–	–	–	2.3
Dividends (note 7)	–	–	–	–	(107.8)	–	–	(107.8)
Purchase of own shares (note 18)	–	–	–	–	(92.2)	–	–	(92.2)
Proceeds from sale of own shares	–	–	–	–	7.1	–	–	7.1
Credit in respect of employee share schemes	–	–	–	–	70.5	–	–	70.5
Movement on tax arising on share options and awards	–	–	–	–	4.2	–	–	4.2
	–	2.3	–	–	(118.2)	–	–	(115.9)
Balance at 31 December 2015	**0.7**	**27.2**	**354.3**	**61.4**	**1,213.3**	**17.7**	**123.0**	**1,797.6**

* 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, 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).

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

Notes to the financial statements

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

1a 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 licences 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 England and Wales), Geomerics Limited (incorporated in England and Wales), 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 the Republic of Ireland), ARM Hungary KFT (incorporated in Hungary), ARM Inc. (incorporated in the US), ARM Technologies Israel Limited (incorporated in Israel), 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).

1b 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 and financial assets and liabilities at fair value through the income statement (including embedded derivatives and derivative instruments).

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 and 31 December 2015, the Group's internal organisation and management structure reflected this change and this is the primary way in which the Chief Operating Decision Maker (CODM) was 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. The result of this re-organisation is that the Group has one reportable segment, namely the IP Group (IPG). Other revenue and costs not related to IPG are separately disclosed in note 2.

1b Summary of significant accounting policies continued

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 12, 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% (2014: 10%) (pre-tax discount rate of approximately 11% (2014: 11%)). The Group reviews the carrying value of its assets including goodwill at the cash-generating unit 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 62, 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.

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.

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.

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 has been deferred pending further discussion regarding its implementation and is now effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted, subject to EU adoption. The Group continues to assess the impact of IFRS 15 and is developing processes and systems to enable the transition to the new standard.

IFRS 16 "Leases" replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard applies to annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. The Group is currently assessing IFRS 16's full impact.

Notes to the financial statements continued…

1b Summary of significant accounting policies continued

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.

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.

1b Summary of significant accounting policies continued

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.

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 the probability of any performance conditions being met and thus whether any further consideration will be payable.

Notes to the financial statements continued…

1b Summary of significant accounting policies continued

(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 of 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

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.

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.

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

1b Summary of significant accounting policies continued

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 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 2015 and 2014 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.

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.

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 and 31 December 2015, the Group's internal organisation and management structure reflected this change and this is the primary way in which the Chief Operating Decision Maker (CODM) was 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. The result of this re-organisation is that the Group has one reportable segment, namely the IP Group (IPG). Other revenue and costs not related to IPG are separately disclosed in note 2.

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.

› 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.

Notes to the financial statements continued…

1b Summary of significant accounting policies continued

- 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.

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 UK, 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.

1b Summary of significant accounting policies continued

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.

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, except that of ARM Technologies Israel Limited which is US dollars. 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.

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.

Notes to the financial statements continued…

1b Summary of significant accounting policies continued

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 2015 no shares granted under the 2013, 2014 and 2015 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 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.

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.

1b Summary of significant accounting policies continued

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 16).

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

(c) Available-for-sale financial assets (AFS) 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.

Publicly-traded investments are classified as AFS. Initially recognised at fair value plus transaction costs on the trade date, they are revalued at market value at each period end. 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 (see below).

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.

Notes to the financial statements continued…

1c Financial risk management continued

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.

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, cash and cash equivalents and short-term deposits 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 2015 and 2014, 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 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.

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.

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.

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.

1c Financial risk management continued

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 to have sufficient capital to make strategic investments, including acquisitions. 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.

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 2015, the interim dividend was increased by 25% 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 2015, 9.0 million shares (2014: 7.9 million) were repurchased for £92.2 million (2014: £66.9 million). The capital structure is continually monitored by the Group.

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.

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 recognises transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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 and 31 December 2015, the Group's internal organisation and management structure reflected this change and this is the primary way in which the Chief Operating Decision Maker (CODM) was 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. The result of this re-organisation is that the Group has one reportable segment, namely the IP Group (IPG).

In the year ended 31 December 2015, the Group incurred other costs of £19 million and generated other revenues of £4 million that were not related to IPG.

During the year ended 31 December 2015, no customer accounted for more than 10% of the Group's total revenues (2014: no customer accounted for more than 10%).

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

Notes to the financial statements continued…

2 Segmental reporting continued

Analysis of revenue by destination*:

	2015 £m	2014 £m
United States	**365.7**	321.8
PR China	**187.0**	116.8
Taiwan	**141.8**	133.7
South Korea	**99.8**	68.5
Japan	**70.9**	60.4
Singapore	**29.9**	18.5
Switzerland	**26.7**	17.9
Germany	**11.1**	12.3
Netherlands	**9.4**	8.1
Russia	**2.5**	11.3
Rest of Europe	**19.5**	21.9
Rest of Asia Pacific	**3.5**	2.4
Rest of North America	**0.5**	1.6
	968.3	**795.2**

*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 £5.1 million and £7.8 million for the years ended 31 December 2015 and 2014 respectively. The Group's exports from the UK were £950.7 million and £778.9 million for the years ended 31 December 2015 and 2014 respectively.

Analysis of revenue by origin:

	2015 £m	2014 £m
Europe*	**960.3**	786.9
United States	**8.0**	8.3
	968.3	**795.2**

*Includes the UK, which had total revenues of £955.8 million in 2015 (2014: £786.7 million).

Analysis of revenue by revenue stream:

	2015 £m	2014 £m
Royalties – Processors	**463.1**	326.0
Royalties – Physical IP	**46.9**	36.5
Licensing – Processors	**326.6**	309.1
Licensing – Physical IP	**54.0**	52.1
Software and tools	**37.3**	35.0
Services	**40.4**	36.5
	968.3	**795.2**

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

	2015 £m	2014 £m
Europe*	**343.9**	237.7
United States	**28.1**	23.4
Asia Pacific	**9.2**	5.2
	381.2	**266.3**

*Includes the UK, which had non-current assets (excluding deferred tax assets, goodwill and other intangible assets) of £341.0 million in 2015 (2014: £235.5 million), of which long-term deposits accounted for £298.0 million (2014: £191.4 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 2015, key management comprised 20 people (2014: 20).

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

	2015 £m	2014 £m
Salaries and short-term employee benefits	**8.1**	6.9
Share-based payments	**6.0**	7.9
Post-employment benefits	**0.3**	0.4
	14.4	**15.2**

Directors' emoluments

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

	2015 £m	2014 £m
Aggregate emoluments in respect of qualifying services	**3.8**	2.8
Aggregate payments for pension-related benefits	**0.1**	0.2
Aggregate gains on exercise of share options	**–**	0.1
Aggregate amounts receivable in shares under the DAB Plan	**5.3**	2.5
Aggregate amounts receivable under the LTIP	**2.0**	2.5
	11.2	**8.1**

Detailed disclosures of directors' emoluments are shown on page 28. Details of directors' interests in share options and awards are shown on pages 31 to 35, which form part of the financial statements.

4 Employee information

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

	2015 Number	2014 Number
By activity		
Research and development	**2,639**	2,173
Sales and marketing	**498**	481
General and administrative	**465**	418
	3,602	**3,072**
Staff costs (for the above persons)		
Wages and salaries	**246.7**	203.6
Medical care costs	**9.0**	6.1
Share-based payments (note 20)	**70.5**	68.5
Social security costs	**32.7**	29.1
Movement on provision for social security costs on share awards	**(1.4)**	(2.4)
Other pension costs	**13.1**	11.5
	370.6	**316.4**

Notes to the financial statements continued…

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:

	2015 £m	2014 £m
Staff costs, including share-based payments (note 4)	**370.6**	316.4
Cost of inventories recognised as an expense	**3.5**	3.8
Depreciation of property, plant and equipment – owned assets (note 11)	**17.3**	14.1
Depreciation of property, plant and equipment – under finance leases (note 11)	**5.4**	5.0
Amortisation of other intangible assets (note 13)		
– Cost of revenues	**0.3**	0.3
– Research and development expenses	**9.7**	7.5
– Sales and marketing expenses	**0.1**	0.2
– General and administrative expenses	**9.2**	8.5
Government grants – research and development expenditure credit	**(9.6)**	(8.8)
Impairment of non-current AFS financial assets (note 10)	**0.3**	1.0
Net profit on disposal of AFS financial assets	**(5.7)**	(0.3)
Other operating lease rentals payable		
– Plant and machinery	**28.4**	26.0
– Property	**16.3**	11.3
Accounts receivables impairment (including movement in provision) (note 8)	**(0.1)**	0.3
Fair value movement on embedded derivatives	**(4.3)**	(9.6)
Other foreign exchange (gains)/losses	**(3.2)**	6.8

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:

	2015 £m	2014 £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**	0.4
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
	1.0	**1.1**

* All other non-audit services includes the provision of advice relating to the Group's procurement model in 2014.

6 Tax

Analysis of charge in the year:

	2015 £m	2014 £m
Current tax:		
Current tax on profits for the year	71.3	54.5
Adjustments in respect of prior years	(1.9)	(1.0)
Total current tax	69.4	53.5
Deferred tax:		
Origination and reversal of temporary differences	5.7	8.6
Adjustment in respect of prior years	–	(1.0)
Total deferred tax	5.7	7.6
Income tax expense	**75.1**	**61.1**

Analysis of tax on items charged to equity:

	2015 £m	2014 £m
Deferred tax charge on outstanding share options and awards	4.0	10.6
Current tax benefit on share options and awards	(8.2)	(10.9)
Deferred tax charge on AFS financial assets	3.3	1.1

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

	2015 £m	2014 £m
Profit before tax	414.8	316.5
Profit before tax at the corporation tax rate of 20.25% (2014: 21.5%)	84.0	68.1
Effects of:		
Adjustments in respect of prior years	(1.9)	(2.0)
Adjustments in respect of foreign tax rates	6.9	6.3
Research and development tax credits	(3.8)	(3.7)
Current impact of the UK patent box regime	(21.9)	(15.9)
US deferred tax assets not recognised *	–	0.9
Foreign withholding tax	1.6	(2.5)
Impact of share-based payments	3.8	5.2
Other**	6.4	4.7
Total taxation	**75.1**	**61.1**

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

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

Notes to the financial statements continued…

6 Tax continued

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:

	2015 £m	2014 £m
At 1 January	55.5	65.2
Amount acquired with subsidiary undertakings	(4.7)	(0.4)
Income statement charge	(5.7)	(7.6)
Adjustment in respect of share-based payments	(4.0)	(10.6)
Movement from current tax assets	6.4	9.3
Revaluation of AFS financial asset	(3.3)	(1.1)
Exchange differences	0.6	0.7
At 31 December	**44.8**	**55.5**

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 2015 was £5.6 million (2014: £5.8 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 £49.3 million (2014: £43.1 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.

During 2015, the UK Government published draft legislation introducing a new Patent Box regime based on the newly adopted modified nexus approach 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 2015	24.3	1.7	25.9	8.1	–	60.0
Amount acquired with subsidiary undertaking	–	–	0.1	–	–	0.1
Movement from current tax assets	–	–	6.4	–	–	6.4
Income statement credit/(charge)	1.3	(1.7)	(7.6)	0.5	1.8	(5.7)
Movement on deferred tax arising on outstanding share options and awards	(4.0)	–	–	–	–	(4.0)
Exchange differences	–	–	0.9	–	–	0.9
At 31 December 2015 (prior to offsetting)	**21.6**	**–**	**25.7**	**8.6**	**1.8**	**57.7**
Offsetting of deferred tax liabilities						(9.7)
At 31 December 2015 (after offsetting)						**48.0**
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
At 31 December 2014 (prior to offsetting)	**24.3**	**1.7**	**25.9**	**8.1**	**–**	**60.0**
Offsetting of deferred tax liabilities						(4.1)
At 31 December 2014 (after offsetting)						**55.9**

The deferred tax asset to be recovered after more than one year is £29.7 million (2014: £32.0 million).

6 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 2015	3.1	1.1	0.3	4.5
Amount acquired with subsidiary undertakings	4.8	–	–	4.8
Movement through reserves	–	3.3	–	3.3
Exchange differences	0.3	–	–	0.3
At 31 December 2015 (prior to offsetting)	**8.2**	**4.4**	**0.3**	**12.9**
Offsetting of deferred tax assets				(9.7)
At 31 December 2015 (after offsetting)				**3.2**
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
At 31 December 2014 (prior to offsetting)	3.1	1.1	0.3	4.5
Offsetting of deferred tax assets				(4.1)
At 31 December 2014 (after offsetting)				0.4

The deferred tax liability due after more than one year prior to offsetting is £1.3 million (2014: £1.0 million).

7 Dividends

	2015 £m	*2014 £m*
Final 2013 paid at 3.60 pence per share	–	50.7
Interim 2014 paid at 2.52 pence per share	–	35.4
Final 2014 paid at 4.50 pence per share	63.5	–
Interim 2015 paid at 3.15 pence per share	44.3	–
	107.8	86.1

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 5.63 pence per share, which will absorb an estimated £79 million of shareholders' funds. Subject to approval at the 2016 AGM, it will be paid on 13 May 2016 to shareholders who are on the register of members on 22 April 2016.

8 Accounts receivable

	2015 £m	*2014 £m*
Trade debtors (including receivables from related parties – see note 24)	133.5	138.5
Less: Provision for impairment of trade debtors	(1.0)	(9.0)
Trade debtors, net	132.5	129.5
Amounts recoverable on contracts	51.2	9.1
Current accounts receivable	**183.7**	**138.6**

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

	2015 £m	*2014 £m*
At 1 January	(9.0)	(9.7)
Charge to income statement	0.1	(0.3)
Utilised	6.5	2.5
Reclassification from deferred income	1.5	(1.4)
Foreign exchange	(0.1)	(0.1)
At 31 December	**(1.0)**	**(9.0)**

See also note 16 for further disclosure regarding the credit quality of the Group's gross trade debtors.

9 Prepaid expenses and other assets

	2015 £m	*2014 £m*
Other receivables	22.9	19.3
Prepayments	28.7	23.9
Current prepaid expenses and other assets	51.6	43.2
Plus: non-current prepaid expenses and other assets	1.4	1.7
Total prepaid expenses and other assets	**53.0**	**44.9**

Notes to the financial statements continued…

10 Available-for-sale financial assets

Non-current available-for-sale financial assets	*2015 £m*	*2014 £m*
Net book value		
At 1 January	23.7	13.9
Additions	3.8	5.0
Revaluation recognised through other comprehensive income	2.8	5.4
Transfer to current	(3.8)	–
Disposals	(15.0)	–
Foreign exchange translation	0.4	0.4
Impairment recognised through income statement (general and administrative expenses)	(0.3)	(1.0)
At 31 December	**11.6**	**23.7**

Current available-for-sale financial assets	*2015 £m*	*2014 £m*
Net book value		
At 1 January	–	1.2
Revaluation recognised through other comprehensive income	19.3	–
Transfer from non-current	3.8	–
Disposals	–	(1.2)
At 31 December	**23.1**	–

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. Non-current available-for-sale investments noted above are considered to be level 3 financial assets (see note 16).

Included within the £15.0 million disposals noted in the above table were £8.7 million ($12.9 million) of convertible loan notes in Sunrise Micro Devices, Inc. which were converted on acquisition on 15 April 2015 (see note 19).

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 2015 would have reduced the Group's post-tax profit by £1.0 million (2014: £1.5 million) and resulted in a £nil (2014: £nil) reduction in other components of equity.

Current investments

During 2015 there has been a transfer out of level 3 and into level 1 financial instrument assets. This is a result of Thunder Software Technology Co. Ltd listing on the Shenzhen stock exchange in China. This financial asset is considered to be a current level 1 asset since it has an active market. The value of this investment as at 31 December 2015 is £23.1 million. At 31 December 2014, the Group had no listed investments.

The Group's investments include the following companies:

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

Available-for-sale financial assets include the following:

	2015 £m	*2014 £m*
Current:		
Listed equity securities – China	23.1	–
Non-current:		
Unlisted equity securities – UK	6.6	6.5
Unlisted equity securities – US	1.6	1.6
Unlisted equity securities – ROW	3.4	7.4
Convertible loan notes – UK	–	1.3
Convertible loan notes – US	–	6.9
Total available-for-sale financial assets	**34.7**	**23.7**

Available-for-sale financial assets are held in the following currencies:

	2015 £m	2014 £m
Sterling	11.6	15.5
US dollars	–	8.2
Chinese yuan	23.1	–
Total available-for-sale financial assets	**34.7**	**23.7**

11 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
Cost						
At 1 January 2015	0.2	20.0	70.5	8.2	1.0	99.9
Additions	–	10.1	24.7	4.2	0.6	39.6
Acquisitions	–	0.1	0.4	0.1	–	0.6
Transfers	–	–	1.4	–	(1.4)	–
Disposals	–	(5.2)	(9.9)	(1.1)	(0.1)	(16.3)
Exchange differences	–	0.6	1.1	0.3	–	2.0
At 31 December 2015	**0.2**	**25.6**	**88.2**	**11.7**	**0.1**	**125.8**
Accumulated depreciation						
At 1 January 2015	0.1	9.8	41.4	5.2	–	56.5
Charge for the year	–	3.3	17.7	1.7	–	22.7
Disposals	–	(5.2)	(9.7)	(1.1)	–	(16.0)
Exchange differences	–	0.3	0.6	0.1	–	1.0
At 31 December 2015	**0.1**	**8.2**	**50.0**	**5.9**	**–**	**64.2**
Net book value At 31 December 2015	**0.1**	**17.4**	**38.2**	**5.8**	**0.1**	**61.6**

	Freehold buildings £m	Leasehold improvements £m	Computer equipment £m	Fixtures, fittings and motor vehicles £m	Assets in the course of construction £m	Total £m
Cost						
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
At 31 December 2014	**0.2**	**20.0**	**70.5**	**8.2**	**1.0**	**99.9**
Accumulated depreciation						
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
At 31 December 2014	**0.1**	**9.8**	**41.4**	**5.2**	**–**	**56.5**
Net book value At 31 December 2014	**0.1**	**10.2**	**29.1**	**3.0**	**1.0**	**43.4**

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

Included within computer equipment are assets with net book value of £13.7 million (2014: £9.5 million) held under finance leases.

Notes to the financial statements continued…

12 Goodwill

	IP Group £m	IoT £m	Total £m
At 1 January 2014	520.1	5.8	525.9
Exchange differences	29.7	0.4	30.1
Acquisition – Duolog (note 19)	10.7	–	10.7
Acquisition – Offspark (note 19)	–	0.3	0.3
At 31 December 2014	560.5	6.5	567.0
Exchange differences	**26.4**	**1.6**	**28.0**
Acquisition – Wicentric (note 19)	**1.8**	–	**1.8**
Acquisition – SMD (note 19)	**6.5**	–	**6.5**
Acquisition – Sansa (note 19)	**7.1**	**28.7**	**35.8**
Acquisition – Carbon (note 19)	**11.6**	–	**11.6**
At 31 December 2015	**613.9**	**36.8**	**650.7**

The Group has been investing in activities related to the Internet-of-Things (IoT). On 30 July 2015, the Group acquired the share capital of Discretix, Inc. (trading as Sansa Security, Inc. (Sansa)). The majority of the goodwill and assets acquired as part of this acquisition are considered to be related to IoT. IoT is now considered to be a separate cash-generating unit from IPG. The goodwill allocated to IoT has been subject to a separate impairment review, as goodwill is monitored by the Group at the cash-generating unit level.

During the fourth quarter of 2015, the directors tested the Group's goodwill balances for impairment in accordance with IAS 36 "Impairment of assets". Their recoverable amounts have been measured based on a value-in-use calculation.

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

IP Group:

Period of projected cash flows The directors have used a ten-year forecast period with an assumed terminal growth rate after 2025 of 3% per annum. The ten-year forecast is based on the Group's detailed strategic plan for years one to three extrapolated for the remaining years. 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.

IoT:

Period of projected cash flows The directors have used a ten-year forecast period with an assumed terminal growth rate after 2025 of 3% per annum. The ten-year forecast is based on the Group's detailed strategic plan for years one to three extrapolated for the remaining years. Given the long-term nature of the plan for this cash-generating unit it is considered appropriate to use a ten-year forecast period to assess the expected future cash flows to be generated from the assets under review.

Revenue growth Revenue growth assumptions are based on financial budgets and forecasts approved by senior management, taking into account typical semiconductor industry growth rates and ARM's historical experience in the context of wider industry and economic conditions. Significant revenue growth is planned starting from the current immaterial level.

Operating margins Operating margins have been assumed to improve from losses in the early years to approximately 40% 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. In making this assessment the directors have considered possible scenarios that could result in an impairment. The calculation is most sensitive to variations in the revenue assumptions where a reduction in planned revenues of greater than 30% could result in an impairment of goodwill.

Whilst it is conceivable that a key assumption in the calculation or the Group's current plans for this cash-generating unit could change, the directors believe that based on the existing strategy it is reasonable to value the goodwill attributed to IoT at its purchased value and that no impairment is necessary as at 31 December 2015.

13 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
Cost								
At 1 January 2015	20.7	99.1	6.2	50.3	55.2	17.5	4.7	253.7
Additions	2.3	9.1	–	–	–	–	–	11.4
Acquisitions	–	–	3.0	18.2	1.2	–	–	22.4
Disposals	(0.6)	–	–	–	–	–	–	(0.6)
Exchange differences	0.1	–	0.4	1.1	2.2	0.9	0.2	4.9
At 31 December 2015	**22.5**	**108.2**	**9.6**	**69.6**	**58.6**	**18.4**	**4.9**	**291.8**
Accumulated amortisation								
At 1 January 2015	15.5	35.5	6.2	41.9	55.2	17.5	4.7	176.5
Charge for the year	3.1	12.7	0.2	3.2	0.1	–	–	19.3
Disposals	(0.6)	–	–	–	–	–	–	(0.6)
Exchange differences	0.1	–	0.3	0.9	2.2	0.9	0.2	4.6
At 31 December 2015	**18.1**	**48.2**	**6.7**	**46.0**	**57.5**	**18.4**	**4.9**	**199.8**
Net book value								
At 31 December 2015	**4.4**	**60.0**	**2.9**	**23.6**	**1.1**	**–**	**–**	**92.0**

The net book value of patents and licences includes a patent licence agreement for interconnect technology used in SoCs, with a carrying value of £12.5 million at 31 December 2015 (2014: £14.2 million) and a remaining useful life of seven years, and IP rights acquired with a carrying value of £27.7 million at 31 December 2015 (2014: £32.5 million) and a remaining useful life of six 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	Total £m
Cost								
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
At 31 December 2014	**20.7**	**99.1**	**6.2**	**50.3**	**55.2**	**17.5**	**4.7**	**253.7**
Accumulated amortisation								
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
At 31 December 2014	**15.5**	**35.5**	**6.2**	**41.9**	**55.2**	**17.5**	**4.7**	**176.5**
Net book value								
At 31 December 2014	5.2	63.6	–	8.4	–	–	–	77.2

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

Notes to the financial statements continued…

14 Accrued and other liabilities

	2015 £m	2014 £m
Accruals:		
Provision for payroll taxes on share awards	11.4	12.8
Employee bonus and sales commissions	28.2	19.3
Other accruals (including £6.3 million non-current (2014: £nil))	55.0	37.3
Total accruals	**94.6**	69.4
Other taxation and social security	5.2	4.7
Other payables	7.2	6.5
Total accrued and other liabilities	**107.0**	80.6

15 Finance lease liabilities

	2015 £m	2014 £m
Gross finance lease liabilities – minimum lease payments:		
Within one year	5.5	4.1
In the second to fifth years inclusive	6.2	2.6
Less: future finance charges	(0.4)	(0.2)
Present value of lease obligations	**11.3**	6.5
Amounts due for settlement within 12 months	5.2	3.9
Amounts due for settlement after 12 months	6.1	2.6
Present value of lease obligations	**11.3**	6.5

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

16 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
At 31 December 2015				
Cash and cash equivalents	40.5	–	–	40.5
Short-term deposits and similar instruments	617.8	–	–	617.8
Embedded derivatives	–	6.9	–	6.9
Accounts receivable (gross of impairment provision)	184.7	–	–	184.7
Available-for-sale financial assets – listed	–	–	23.1	23.1
Total current financial assets	843.0	6.9	23.1	873.0
Long-term deposits and similar instruments	298.0	–	–	298.0
Loans and receivables	6.0	–	–	6.0
Available-for-sale financial assets – unlisted	–	–	11.6	11.6
Total non-current financial assets	304.0	–	11.6	315.6
Total financial assets	**1,147.0**	**6.9**	**34.7**	**1,188.6**
At 31 December 2014				
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
Total financial assets	1,016.9	2.6	23.7	1,043.2

16 Financial instruments continued

(a) Financial instruments by category continued

Financial liabilities

	2015 £m	2014 £m
Liabilities at amortised cost at 31 December:		
Accounts payable	**12.7**	11.7
Accrued and other liabilities*	**57.0**	46.8
Finance lease liabilities	**11.3**	6.5
	81.0	65.0
Liabilities at fair value through the income statement at 31 December:		
Fair value of currency exchange contracts	**3.2**	4.8
Total financial liabilities	**84.2**	**69.8**

* 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 2015, the Group's financial instrument assets consisted of embedded derivatives (level 2) of £6.9 million (2014: £2.6 million) and AFS financial assets (level 1) of £23.1 million (current) (2014: £nil (current) and (level 3) of £11.6 million (non-current) (2014: £23.7 million non-current).

As at 31 December 2015, the Group's financial instrument liabilities consisted of currency exchange contracts at fair value through the income statement (level 2) of £3.2 million (2014: £4.8 million).

The Level 1 AFS financial asset consists of a listed equity investment. The fair value is determined with reference to prices quoted on the relevant exchange at the balance sheet date.

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.

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.

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 2015:				
Accounts payable	**12.7**	**–**	**–**	**–**
Accrued and other liabilities	**54.3**	**0.9**	**1.8**	**–**
Finance lease liabilities	**3.0**	**2.2**	**3.5**	**2.6**
Fair value of currency exchange contracts	**2.4**	**0.8**	**–**	**–**
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	–

Notes to the financial statements continued…

16 Financial instruments continued

(a) Financial instruments by category continued

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. During 2013 the Group invested a further £0.7 million with Future Business.

In addition, the Group is owed a balance of £2.9 million from its joint venture Trustonic at 31 December 2015 (2014: £nil) in respect of loans and other amounts receivable.

The carrying value of the total loans amounted to £6.0 million at 31 December 2015 (2014: £3.0 million), with £0.1 million being recognised as interest receivable during 2015 (2014: £0.1 million).

The Group had no borrowings during 2015 and 2014.

Short-term deposits and similar instruments The effective interest rate on short-term deposits and similar instruments outstanding at the year-end was 1.35% (2014: 1.29%) and these deposits have an average maturity of 189 days (2014: 205 days).

Long-term deposits and similar instruments The effective interest rate on long-term deposits and similar instruments outstanding at the year-end was 1.52% (2014: 1.61%) and these deposits have an average maturity of 522 days (2014: 576 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.

	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 2015				
Outflow	**$160.0**	**$40.0**	**$20.0**	–
Inflow	**£106.3**	**£26.5**	**£13.4**	–
Foreign exchange options – held-for-trading at 31 December 2015				
Outflow (maximum)	**$51.8**	**$51.8**	**$59.5**	–
Inflow (maximum)	**£35.1**	**£35.1**	**£40.4**	–
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

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 £3.2 million at 31 December 2015 (2014: £4.8 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 gain of £1.6 million (2014: loss of £9.4 million).

16 Financial instruments continued

(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.

	2015 £m	2014 £m
Trade debtors (gross of impairment provision):		
Not yet due	**101.6**	86.5
Under 90 days overdue	**26.4**	31.0
Over 90 days overdue but not provided for	**4.5**	12.0
Fully provided for	**1.0**	9.0
Total	**133.5**	**138.5**

As shown above, at 31 December 2015, trade debtors less than 90 days overdue (excluding those amounts that are not yet due) amounted to £26.4 million. Of those outstanding at 31 December 2015, £18.6 million had been collected by 15 February 2016 and £6.9 million was owed by large, established customers. Similarly, debtors more than 90 days overdue and not provided for amounted to £4.5 million, of which £0.6 million had been collected by 15 February 2016 and £2.5 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 2015, trade debtors fully provided for amounted to £1.0 million (2014: £9.0 million). All of the trade debtors provided for at 31 December 2015 and 31 December 2014 were over six months overdue.

At 31 December 2015, one customer (2014: no 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 2015 and 2014, 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 2015, over 99% (2014: 99%) 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 2015, the Group had £956.1 million (2014: £873.1 million) of interest-bearing assets. At 31 December 2015, 95% (2014: 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 loan to joint venture) 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 £8.5 million (2014: £7.3 million) and profit after tax by £6.8 million (2014: £5.8 million).

Currency risk

At 31 December 2015, the Group had outstanding currency exchange contracts to sell $220 million (2014: $174 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 2015, the Group had outstanding currency options under which the Group may, under certain circumstances, be required to sell up to $163 million (2014: $231 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 2015, the Group had $196 million (2014: $212 million) of accounts receivable denominated in US dollars at that date, and US dollar cash and cash equivalents, and short-term deposits of $18 million (2014: $41 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 2015, if sterling had strengthened by 10% against foreign currencies with all other variables held constant, post-tax profit for the year would have been £5.3 million lower (2014: £4.0 million lower), mainly as a result of the mix of financial instruments at respective year-ends.

Notes to the financial statements continued…

17 Share capital

	2015 £m	2014 £m
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2014: 2,200,000,000)	**1.1**	1.1

	2015		2014	
	Number of shares m	Value £m	Number of shares m	Value £m
Issued and fully paid				
At 1 January	**1,412.2**	**0.7**	1,400.3	0.7
Allotted under employee incentive schemes	**0.2**	**–**	11.9	–
At 31 December	**1,412.4**	**0.7**	**1,412.2**	**0.7**

During 2015, the aggregate consideration received on issue of new share capital allotted under employee incentive schemes was £2.3 million (2014: £6.8 million).

18 Own shares held

	Treasury stock £m
At 1 January 2015	66.9
Purchase of own shares	92.2
Issuance of shares	(87.1)
At 31 December 2015	**72.0**

During the year, £92.2 million (2014: £66.9 million) of shares were repurchased, representing 9.0 million (2014: 7.9 million) shares. At 31 December 2015, 7.2 million (2014: 7.9 million) shares were held as treasury stock. Own shares held have a nominal value of 0.05 pence and in total represent 0.5% of called-up share capital.

19 Acquisitions

The Group acquired the entire share capital of three companies in 2015: Wicentric, Inc., acquired on 5 February 2015, Sunrise Micro Devices, Inc. (SMD), acquired on 15 April 2015 and Discretix, Inc. (trading as Sansa Security, Inc. (Sansa)), acquired on 30 July 2015. In addition the Group acquired the trade and certain assets of Carbon Design Systems, Inc. (Carbon) on 19 October 2015.

Wicentric is a Bluetooth® Smart stack and profile provider and SMD is a provider of sub-one volt radio intellectual property (IP). The IP of both companies is being integrated to form a portfolio that will complement ARM's existing processor and physical IP, targeting end markets requiring low-power wireless communications such as the IoT.

The following table summarises the consideration and provisional fair values of the assets acquired and liabilities assumed at the date of each acquisition.

	Wicentric 5 February 2015		SMD 15 April 2015	
	£m	$m	£m	$m
Cash, accounts receivable, other current assets, property, plant and equipment	0.2	0.3	0.9	1.3
Intangible assets	0.4	0.6	4.6	6.7
Accrued and other liabilities	(0.1)	(0.2)	(0.5)	(0.7)
Deferred tax liabilities (net)	(0.1)	(0.2)	(1.6)	(2.3)
Net assets acquired	0.4	0.5	3.4	5.0
Goodwill	1.8	2.7	6.5	9.6
Consideration	**2.2**	**3.2**	**9.9**	**14.6**

The full consideration was paid in cash for Wicentric. The majority of the consideration for SMD consisted of convertible loan notes (and interest accrued) with a fair value of £9.2 million ($13.5 million), with the remainder of the consideration settled in cash. All transaction expenses incurred by the Group have been charged to the income statement.

From their dates of acquisition to 31 December 2015, the acquisitions of Wicentric and SMD contributed £1.0 million in revenue and incurred a pre-tax loss of £3.5 million. If both companies had been consolidated from 1 January 2015, the consolidated income statement would have included an additional £1.0 million of revenue and £5.2 million of pre-tax loss.

19 Acquisitions continued

Sansa is a provider of hardware security IP and software for advanced system-on-chip components deployed in IoT and mobile devices. The company currently enables security in more than 150 million products a year and Sansa technology is deployed across a range of smart connected devices and enterprise systems. The acquisition complements the ARM security portfolio, which includes ARM TrustZone® technology and SecurCore® processor IP.

Carbon is a leading supplier of cycle-accurate virtual prototyping solutions, to deliver design optimisation, time-to-market and cost-efficiency gains for its Partners.

The following table summarises the consideration and provisional fair values of the assets acquired and liabilities assumed at the date of each acquisition.

	Sansa 30 July 2015		*Carbon 19 October 2015*	
	£m	*$m*	*£m*	*$m*
Cash, accounts receivable, other current assets, property, plant and equipment	4.8	7.4	0.1	0.1
Intangible assets	11.5	17.8	5.9	9.1
Accrued and other liabilities	(3.1)	(4.8)	(1.8)	(2.8)
Deferred tax liabilities (net)	(3.0)	(4.7)	–	–
Net assets acquired	10.2	15.7	4.2	6.4
Goodwill	35.8	55.6	11.6	18.0
Consideration	**46.0**	**71.3**	**15.8**	**24.4**

The full consideration was paid in cash for both Sansa and Carbon. All transaction expenses incurred by the Group have been charged to the income statement. The rationale for the acquisition of Sansa is to accelerate the Group's business into the IoT services market and to enhance future revenue streams rather than to directly exploit the IP acquired. Consequently the majority of the value to the Group is as an enabler to the existing business which has resulted in the high proportion of goodwill as a percentage of the consideration.

From 30 July 2015 to 31 December 2015, the acquisition of Sansa contributed £4.3 million in revenue and incurred a pre-tax profit of £0.4 million. If Sansa had been consolidated from 1 January 2015, the consolidated income statement would have included an additional £10.2 million of revenue and £0.5 million of pre-tax loss.

From 19 October 2015 to 31 December 2015, the acquisition of Carbon contributed £0.7 million in revenue and incurred a pre-tax profit of £0.1 million. If Carbon had been consolidated from 1 January 2015, the consolidated income statement would have included an additional £4.0 million of revenue and no pre-tax profit or loss.

For the above reasons, combined with the ability to hire the workforce of the companies, including the founders and the management teams, the Group paid a premium for all four 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.

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.

The following table summarises the consideration and final 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
Consideration	**11.4**	**13.9**	**1.2**	**1.5**

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.

Notes to the financial statements continued…

19 Acquisitions continued

From 27 May 2014 to 31 December 2014, the acquisition of Duolog contributed £1.3 million in revenue and incurred a pre-tax 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.

Other:

During 2015 the Group also made payments in respect of time-based and performance bonuses of £1.1 million (2014: £1.4 million) due as a result of the acquisition of Prolific Inc. in 2011, £0.3 million (2014: £0.3 million) due as a result of the acquisition of Sensinode in 2013, £0.3 million (2014: £nil) due as a result of the acquisition of Duolog and £0.2 million (2014: £nil) due as a result of the acquisition of Geomerics in 2014.

During 2014 the Group made a payment of £1.8 million in respect of time-based and performance bonuses due as a result of the acquisition of Obsidian Software Inc. in 2011.

20 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 29.

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 normalised EPS performance over the three-year performance period. Grants were made for the last time under the former LTIP scheme in February 2013 for which the number of shares vesting depends only on the TSR performance of the Group. For details of the new scheme, see the Directors' Remuneration Report on page 31.

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 UK, 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 2014 or 2015. 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 £70.5 million (2014: £68.5 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 2015 and 2014 were as follows:

Grant date	**26 Jun 2015**	**30 Apr 2015**	**31 Oct 2015**	23 Jun 2014	30 Apr 2014	31 Oct 2014
Scheme	**SAYE**	**ESPP**	**ESPP**	SAYE	ESPP	ESPP
Share price at grant date	**£11.480**	**£11.140**	**£10.250**	£8.89	£9.095	£8.385
Exercise price	**£9.344**	**£7.438**	**£8.712**	£7.344	£7.73	£7.13
Number of employees	**410**	**935**	**1,629**	520	684	892
Shares under option	**327,021**	**403,562**	**482,833**	651,142	280,996	361,083
Vesting period (years)	**3–5**	**–**	**–**	3–5	–	–
Expected volatility	**29%–34%**	**–**	**–**	33%–35%	–	–
Expected life (years)	**3–5**	**–**	**–**	3–5	–	–
Risk-free rate	**0.5%**	**–**	**–**	0.5%	–	–
Dividend yield	**0.61%**	**–**	**–**	0.64%	–	–
Fair value per option	**£3.247–£4.094**	**£3.7025**	**£1.5380**	£2.630–£3.180	£1.365	£1.258

20 Share-based payments continued

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 2014 and 2015 with non-market-based performance conditions (i.e. based on EPS performance) have also been estimated using the Black-Scholes option pricing model.

For LTIP awards with market-based performance conditions issued from 2014 the fair value is 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 2015 were as follows:

Black-Scholes model assumptions

Grant date	12 Feb 2015	12 Feb 2015	12 Feb 2015	8 May 2015	8 May 2015
Scheme	RSU	French RSU	LTIP (EPS)	RSU	French RSU
Share price at grant date	£10.87	£10.87	£10.87	£11.35	£11.35
Number of employees	3,052	126	58	145	13
Shares awarded	4,403,182	145,485	615,651	324,414	19,304
Vesting period (years)	1-4	2-4	3	1-4	2-4
Expected volatility	28%-33%	30%-33%	30%	28%-32%	29%-32%
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	0.65%	0.65%	0.65%	0.62%	0.62%
Fair value per share	£10.593-£10.800	£10.593-£10.731	£10.661	£11.073-£11.280	£11.073-£11.210

Grant date	13 Aug 2015	13 Aug 2015	12 Nov 2015	12 Nov 2015
Scheme	RSU	French RSU	RSU	French RSU
Share price at grant date	£9.16	£9.16	£10.53	£10.53
Number of employees	618	16	286	7
Shares awarded	1,589,361	19,187	646,514	6,627
Vesting period (years)	1-4	2-4	1-4	2-4
Expected volatility	29%-32%	29%-32%	30%	30%
Expected life (years)	1-4	2-4	1-4	2-4
Risk-free rate	0.5%	0.5%	0.5%	0.5%
Dividend yield	0.84%	0.84%	0.73%	0.73%
Fair value per share	£8.859-£9.084	£8.859-£9.008	£10.228-£10.454	£10.228-£10.378

The assumptions for each grant during 2014 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

Notes to the financial statements continued…

20 Share-based payments continued

Monte-Carlo model assumptions for LTIP						
Grant date	12 Feb 2015	12 Feb 2015	12 Nov 2015	12 Nov 2015	8 Feb 2014	8 Feb 2014
Scheme	(FTSE 350)	(FTSE AWTI)	(FTSE 350)	(FTSE AWTI)	(FTSE 350)	(FTSE AWTI)
Share price at grant date	£10.87	£10.87	£10.53	£10.53	£8.96	£8.96
Number of employees	58	58	2	2	59	59
Shares awarded	307,884	307,885	8,618	8,618	372,793	372,793
Vesting period (years)	3	3	3	3	3	3
Expected volatility	31%	31%	30%	30%	35%	35%
Expected life (years)	3-5	3-5	3-5	3-5	3-5	3-5
Risk-free rate	0.64%	0.64%	0.64%	0.64%	1.0%	1.0%
Dividend yield	0%	0%	0%	0%	0%	0%
Fair value per share	£13.242	£13.479	£11.092	£12.343	£6.952	£7.560

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 2015 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.

	2015			*2014*		
	Options Number	*Weighted average exercise price*	*RSUs/ LTIP/DAB Number*	*Options Number*	*Weighted average exercise price*	*RSUs/ LTIP/DAB Number*
Outstanding at 1 January	1,575,069	£5.661	18,897,280	1,969,919	£3.385	20,227,656
Granted	1,213,416	£8.459	9,718,744	1,293,221	£7.368	9,666,289
Forfeited	(81,879)	£6.804	(1,003,267)	(90,322)	£5.197	(667,923)
Lapsed	–	–	–	(29,458)	£0.725	–
Exercised	(1,499,297)	£6.276	(8,398,143)	(1,568,291)	£4.329	(10,328,742)
Outstanding at 31 December	**1,207,309**	**£7.632**	**19,214,614**	1,575,069	£5.661	18,897,280
Exercisable at 31 December	**1,363**	**£3.962**	**–**	4,283	£4.464	–

The weighted average share price at the date of exercise or vest of the above share options and awards was £10.72 (2014: £8.94).

The following options over ordinary shares were in existence at 31 December:

2015

Exercise price (£)	*Number outstanding*	*Weighted average exercise price £*	*Weighted average remaining life Expected Years*	*Weighted average remaining life Contractual Years*
Outstanding options:				
3.962 – 9.344	1,207,309	7.63	2.27	2.52
Total	**1,207,309**	**7.63**	**2.27**	**2.52**
Outstanding RSU/LTIP/DAB awards:				
0.00 (RSUs)	15,553,164	–	1.32	1.32
0.00 (LTIP)	2,975,379	–	1.36	1.36
0.00 (DAB)	686,071	–	0.70	0.70
Total	**19,214,614**	**–**	**1.30**	**1.30**

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
Total	**1,575,069**	**5.66**	**2.10**	**2.35**
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
Total	**18,897,280**	**–**	**1.26**	**1.26**

21 Capital and other financial commitments

	2015 £m	2014 £m
Contracts placed for future capital expenditure not provided for in the financial statements	7.5	2.9
Other financial commitments (expenditure on investments)	3.2	5.4

22 Operating lease commitments – minimum lease payments

At 31 December 2015, the Group had commitments under non-cancellable operating leases as follows:

	2015			2014		
	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	15.1	20.0	35.1	11.6	5.3	16.9
Later than one year and less than five years	38.4	24.3	62.7	31.7	–	31.7
After five years	15.0	–	15.0	9.3	–	9.3
At 31 December	68.5	44.3	112.8	52.6	5.3	57.9

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.

23 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.

24 Related party transactions

During the year ended 31 December 2015, the Group incurred subscription costs of £7.0 million from Linaro Limited ("Linaro"), an associated company of the Group, representing ARM's committed aggregate contributions to Linaro for a period of two years (2014: £nil). In respect of the subscription fees, the Group was invoiced £3.5 million during the year to 31 December 2015 (2014: £3.5 million). As at 31 December 2015, £1.1 million (2014: £1.1 million) was owed to Linaro.

In addition, the Group provided consulting and other services to Linaro amounting to £1.3 million (2014: £1.1 million). All fees have been charged in accordance with the terms of the agreement. As at 31 December 2015, £0.4 million (2014: £0.3 million) was owed to the Group.

Further information relating to Linaro is disclosed in note 26.

Key management compensation is disclosed in note 3.

There were no other related party transactions during 2015 which require disclosure.

25 Post-balance sheet events

After the year-end, the directors proposed payment of a final dividend in respect of 2015 of 5.63 pence per share. Subject to shareholder approval, the final dividend will be paid on 13 May 2016 to shareholders on the register on 22 April 2016. The final dividend has not been recognised as a distribution during the year ended 31 December 2015.

Notes to the financial statements continued…

26 Subsidiaries, associates, and joint ventures

Subsidiaries

Details of subsidiary undertakings are shown below. All investments are indirectly held unless otherwise shown.

Name of undertaking	Country of incorporation	Principal activity	Parent proportion of nominal value of issued shares held (%)	Proportion of total Group nominal value of issued shares held (%)
ARM Limited	England and Wales	Marketing, research and development of RISC-based microprocessors and graphics IP	less than 1	100*
ARM Belgium Services BVBA	Belgium	Administration	–	100
ARM Electronic Technology (Shanghai) Co, Limited	PR China	Marketing, research and development of RISC-based microprocessors and graphics IP	–	100
ARM Embedded Technologies Pvt. Limited	India	Marketing, research and development of RISC-based microprocessors and physical IP	–	100
ARM Finance Overseas Limited	England and Wales	Holding company	100	100
ARM Finance UK Limited	England and Wales	Holding company	100	100
ARM Finance UK Three Limited	England and Wales	Holding company	–	100
ARM Finance UK Two Limited	England and Wales	Holding company	–	100
ARM Finland Oy	Finland	Development of IoT technology	–	100
ARM France SAS	France	Marketing, research and development of RISC-based microprocessors and physical IP	–	100
ARM Germany GmbH	Germany	Marketing of RISC-based microprocessor IP. Marketing, and research and development of microcontroller tools	–	100
ARM Germany d.o.o.	Slovenia	Marketing of RISC-based microprocessor IP. Marketing, and research and development of microcontroller tools	–	100
ARM Holdings US, Inc.	US	Holding company	–	100
ARM Hungary KFT	Hungary	Development of system IP	–	100
ARM Inc.	US	Marketing, research and development of RISC-based microprocessors and physical IP	–	100
ARM Ireland Holdings Limited	Ireland	Holding company	–	100
ARM Ireland Limited	Ireland	Development of system IP	–	100
ARM Ireland Research Limited	Ireland	Development of system IP	–	100
ARM IP Limited	England and Wales	IP holding company	100	100
ARM Korea Limited	South Korea	Marketing of RISC-based microprocessor IP	–	100
ARM KK	Japan	Marketing of RISC-based microprocessor IP	–	100
ARM Norway AS	Norway	Research and development of graphics IP	–	100
ARM PIPD Holdings One, LLC	US	Holding company	–	100
ARM PIPD Holdings Two, LLC	US	Holding company	–	100
ARM Sweden AB	Sweden	Research and development of graphics IP	–	100
ARM Sansa Holdings, Inc.	US	Dormant	–	100
ARM Taiwan Limited	Taiwan	Marketing, research and development of RISC-based microprocessors and physical IP	–	100
ARM Technologies Israel Limited	Israel	Development of IoT technology and system IP	–	100
ARM Technologies Investments Limited	England and Wales	Holding company	100	100
ARM UK Holdings Limited	England and Wales	Holding company	–	100
Advanced RISC Machines Limited	England and Wales	Dormant	–	100
Discretix KK	Japan	Dormant	–	100
Duolog Technologies Corp	Ireland	Dormant	–	100
Geomerics Limited	England and Wales	Research and development of graphics IP	–	100
Keil Software, Inc.	US	Dormant	–	100
Obsidian Software, Inc.	US	Dormant	–	100
Offspark BV	Netherlands	Dormant	–	100
Sunrise Micro Devices, Inc.	US	Dormant	–	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..

26 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 England and Wales) 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 ventures

In 2012 the Group invested £7.5 million ($12.0 million) in a joint venture, Trustonic Limited (a company incorporated in England and Wales, based in Cambridge, UK), with a further investment during 2013 amounting to £3.7 million (€4.4 million), maintaining a 40% shareholding. The other two joint venture parties each owned 30% of the joint venture. 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.

The joint venture was reorganised in May 2015 such that the shareholding of one party has been acquired by the other two joint venture members. The joint venture is now controlled and owned equally by ARM and one other party, both with 50% shareholdings as at 31 December 2015. The reorganisation generated goodwill of £1.4 million. The carrying value of the Group's investment is £1.0 million at 31 December 2015. This investment has been classified as a joint venture since the Group and its venture partner have joint control over the relevant activities of the business, including the appointment of directors and the determination of the operations of the company.

In 2015, the Group invested £1.6 million (CNY 15.9 million) in a joint venture, ARM Innovation Ecosystem Accelerator Co. Ltd (AIEA) (a company incorporated in PR China, based in Beijing), representing a 49.9% shareholding. The collaboration creates an Internet of Things one-stop shop for startups and established OEMs, providing integrated hardware and software expertise as well as resources from the ARM ecosystem. This investment has been classified as a joint venture since the Group and its venture partner have joint control over the relevant activities of the business, including the appointment of directors and the determination of the operations of the company.

Investment in joint ventures	*2015 £m*	*2014 £m*
At 1 January	**3.0**	6.5
Investment	**2.7**	–
Share of results for the period	**(3.1)**	(3.5)
At 31 December	**2.6**	**3.0**

The Group's share of the results of the joint ventures and its aggregated assets and liabilities, are as follows:

Trustonic Limited	*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*
At 31 December 2015	**3.1**	**3.6**	**(5.1)**	**(2.0)**	**–**	**3.6**	**(6.8)**	**0.1**	**(3.1)**
At 31 December 2014	2.6	4.6	(4.2)	(0.3)	0.3	3.2	(6.9)	0.2	(3.5)

AIEA	*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*
At 31 December 2015	**1.6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2014	–	–	–	–	–	–	–	–	–

The Group's share of joint venture capital commitments amount was £nil at 31 December 2015 (2014: £0.2 million).

Company balance sheet/ UK GAAP

At 31 December	Note	2015 £m	2014 £m
Fixed assets			
Investments	4	587.4	697.1
Current assets			
Debtors	5	324.8	0.5
Cash at bank and in hand		0.3	1.1
		325.1	1.6
Creditors: amounts falling due within one year	6	(0.7)	(167.0)
Net current assets/(liabilities)		324.4	(165.4)
Total assets less current liabilities		911.8	531.7
Net assets		911.8	531.7
Capital and reserves			
Called-up share capital	7	0.7	0.7
Share premium account	8	27.2	24.9
Share option reserve	8	61.4	61.4
Profit and loss account	8	822.5	444.7
Total shareholders' funds		911.8	531.7

The financial statements on pages 94 to 100 were approved by the Board of directors on 17 February 2016 and were signed on its behalf by:

Simon Segars,
Chief Executive Officer

Chris Kennedy,
Chief Financial Officer

Company cash flow statement/ UK GAAP

For the year ended 31 December	Note	2015 £m	2014 £m
Profit before tax		500.2	(0.1)
Changes in working capital			
Debtors		(324.3)	1.0
Other liabilities		13.9	145.7
Cash generated by operations before tax		189.8	146.6
Net cash inflow from operating activities		189.8	146.6
Financing activities			
Proceeds received on issuance of shares		9.4	6.8
Purchase of own shares		(92.2)	(66.9)
Dividends paid to shareholders		(107.8)	(86.1)
Net cash used in financing activities		(190.6)	(146.2)
Net (decrease)/increase in cash and cash equivalents		(0.8)	0.4
Cash and cash equivalents at beginning of the year		1.1	0.7
Cash and cash equivalents at end of the year		0.3	1.1

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

Company statement of changes in shareholders' equity/UK GAAP

	Attributable to the owners of the Company				
For the year ended 31 December	*Share capital £m*	*Share premium account £m*	*Share option reserve £m*	*Profit and loss account £m*	*Total shareholders' funds £m*
Balance at 1 January 2014	**0.7**	**18.1**	**61.4**	**529.3**	**609.5**
Loss for the financial year	–	–	–	(0.1)	(0.1)
Total comprehensive income for the year	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Shares issued on exercise of share options and awards	–	6.8	–	–	6.8
Dividends	–	–	–	(86.1)	(86.1)
Purchase of own shares	–	–	–	(66.9)	(66.9)
Credit in respect of employee share schemes	–	–	–	68.5	68.5
	–	6.8	–	(84.5)	(77.7)
Balance at 31 December 2014	**0.7**	**24.9**	**61.4**	**444.7**	**531.7**
Profit for the financial year	–	–	–	500.2	500.2
Total comprehensive income for the year	**–**	**–**	**–**	**500.2**	**500.2**
Shares issued on exercise of share options and awards (note 8)	–	2.3	–	–	2.3
Proceeds on sale of own shares	–	–	–	7.1	7.1
Dividends paid (note 3)	–	–	–	(107.8)	(107.8)
Purchase of own shares (note 8)	–	–	–	(92.2)	(92.2)
Credit in respect of employee share schemes	–	–	–	70.5	70.5
	–	2.3	–	377.8	380.1
Balance at 31 December 2015	**0.7**	**27.2**	**61.4**	**822.5**	**911.8**

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

Notes to the financial statements/ UK GAAP

1 Principal accounting policies

The individual financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The Company's functional and presentational currency is pounds sterling.

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

The Company has adopted FRS 102 in these financial statements. This is the first year that the Company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 December 2014. There is no impact on these financial statements as a result of the transition to FRS 102 other than the presentation of a cash flow statement and limited additional disclosures.

Under FRS 102, a company which is a member of a group that prepares publicly available consolidated financial statements, which give a true and fair view, is able to apply certain financial statement disclosure exemptions. The Company intends to apply these exemptions to the Company financial statements of ARM Holdings plc from the year ending 31 December 2016. Shareholders wishing to object to the use of these disclosure exemptions should notify the Company Secretary at the Company's registered office.

Basis of preparation The financial statements are prepared on a going concern basis and in accordance with the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. There are no areas involving a significant degree of judgement or critical estimates that are significant to these financial statements.

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.

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. Intercompany debtors and intercompany creditors are measured at amortised cost.

Share schemes The Company issues equity-settled share-based payments, including an LTIP, to certain employees of subsidiary undertakings. In accordance with FRS 102, 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 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 UK, 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 Company does not have any employees and as such 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 UK and US subsidiaries. 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 102, the Company recognises these shares at cost as a deduction in arriving at shareholders' funds.

1 Principal accounting policies continued

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 substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

2 Profit/(loss) 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 profit after taxation, including dividends receivable and before dividends payable was £500.2 million (2014: loss of £0.1 million). The Company has no employees; all three executive directors (as at 31 December 2015) 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 74.

3 Dividends paid and proposed

	2015 £m	*2014 £m*
Final dividend paid of 4.5 pence per ordinary share in respect of 2014 (2014: 3.60 pence in respect of 2013)	**63.5**	50.7
Interim dividend paid of 3.15 pence (2014: 2.52 pence) per ordinary share	**44.3**	35.4
	107.8	**86.1**

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 5.63 pence per share which will absorb an estimated £79 million of shareholders' funds. It will be paid on 13 May 2016 to shareholders who are on the register of members on 22 April 2016, subject to approval by the shareholders at the 2016 AGM.

4 Investments

The cost and net book value of interests in Group undertakings held by the Company was £587.4 million at 31 December 2015 and £697.1 million at 31 December 2014. 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
Cost and net book value	
At 1 January 2015	697.1
Capital contributions arising from share-based payments	70.5
Recharge to subsidiaries of share-based payments	(180.2)
At 31 December 2015	**587.4**

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 ARM Limited and ARM Inc. Consequently, the amount recharged is offset against the carrying value of its investments. The recharge to subsidiaries of share-based payments is in excess of the capital contributions arising from share-based payments in the current year due to a one-off cumulative recharge of a number of years of share option charge to ARM Limited.

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 incorporation*	*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. The full list of Group undertakings is included in Note 26 to the consolidated financial statements.

5 Debtors

	2015 £m	*2014 £m*
Amounts owed by Group undertakings	**323.5**	–
Prepayments and accrued income	**1.0**	0.1
Deferred tax assets*	**0.3**	0.4
	324.8	0.5

* 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

	2015 £m	*2014 £m*
Amounts owed to Group undertakings	**–**	166.4
Accruals	**0.7**	0.6
	0.7	167.0

7 Called-up share capital

	2015 £m	*2014 £m*
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2014: 2,200,000,000)	**1.1**	1.1
Allotted, called-up and fully paid		
1,412,436,842 ordinary shares of 0.05 pence each (2014: 1,412,160,836)	**0.7**	**0.7**

	2015		*2014*	
	Number of shares m	*Value £m*	*Number of shares m*	*Value £m*
Issued and fully paid				
At 1 January	**1,412.2**	**0.7**	1,400.3	0.7
Allotted under employee incentive schemes	**0.2**	**–**	11.9	–
At 31 December	**1,412.4**	**0.7**	1,412.2	0.7

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

276,006 ordinary shares of 0.05 pence each were issued in the year for cash consideration of £2.3 million (2014: 11,897,032 ordinary shares for cash consideration of £6.8 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 2015:

	Year of grant	Number of options	Range of exercise prices £	Weighted average exercise price £	Latest date of exercise
SAYE	2011	30,125	4.464	4.464	31 January 2017
	2012	90,703	3.9616	3.9616	31 January 2018
	2013	179,603	7.96	7.96	31 January 2019
	2014	591,688	7.344	7.344	31 January 2020
	2015	315,190	9.344	9.344	31 January 2021
Total options		**1,207,309**	**3.9616-9.344**	**7.632**	

	Year of grant	Number of share awards	Latest vest date
RSU	2012	721,946	12 November 2016
	2013	3,773,782	12 November 2017
	2014	4,119,793	12 November 2018
	2015	6,937,643	12 November 2019
		15,553,164	
LTIP	2013	520,901	8 February 2016
	2014	1,210,409	13 February 2017
	2015	1,244,069	8 February 2018
		2,975,379	
DAB	2013	280,942	8 February 2016
	2014	405,129	8 February 2017
		686,071	
Total awards		**19,214,614**	
Total options and awards		**20,421,923**	

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 29. 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 31.

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 2014 or 2015. All shares issued under these schemes have either lapsed or been exercised as at 31 December 2015.

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.

Notes to the financial statements/UK GAAP continued…

8 Reserves

	Share premium account £m	Share option reserve £m	Profit and loss account £m
At 1 January 2015	24.9	61.4	444.7
Purchase of treasury shares	–	–	(92.2)
Proceeds on sales of own shares	–	–	7.1
Premium on issue of shares on exercise of share options	2.3	–	–
Credit in respect of capital contributions arising from share-based payments	–	–	70.5
Profit attributable to shareholders	–	–	500.2
Equity dividends payable	–	–	(107.8)
At 31 December 2015	**27.2**	**61.4**	**822.5**

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

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 102 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. At 31 December 2015, approximately £660 million of the profit and loss reserve is deemed distributable (2014: £179 million).

During 2015, the Company purchased a total of 9.0 million (2014: 7.9 million) shares from the market at a cost of £92.2 million (2014: £66.9 million). At 31 December 2015, 7,231,108 shares are still held by the Company. Offset within the profit and loss reserve, therefore, is an amount of £72.0 million (2014: £66.9 million) 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 Capital commitments

The Company had no capital commitments at 31 December 2015 and 2014.

10 Financial commitments and contingencies

At 31 December 2015 and 2014, the Company had no annual commitments under non-cancellable operating leases and no contingencies.

11 Related party transactions

The Company has taken advantage of the exemption from disclosure available to parent companies under FRS 102, where transactions and balances between wholly owned Group entities have been eliminated on consolidation.

12 Post-balance sheet events

After the year-end, the directors proposed payment of a final dividend in respect of 2015 of 5.63 pence per share. Subject to shareholder approval, the final dividend will be paid on 13 May 2016 to shareholders on the register on 22 April 2016. The final dividend has not been recognised as a distribution during the year ended 31 December 2015.

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 2015;
- 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

The financial statements, included within the Annual Report and Accounts (the “Annual Report”), comprise:

- the Company balance sheet as at 31 December 2015;
- the Company cash flow statement for the year then ended;
- the Company 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, 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), including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

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 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
- 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.

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 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.

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

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 pages 48 to 49, 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 2015.

Charles Bowman
(Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 February 2016

Glossary

Apps	Application software that runs within the chip.
ARM7/9/11	ARM7 processor was one of ARM's first commercial products. ARM9 and ARM11 processors followed later.
ARMv8	Latest family of ARM processor designs.
big.LITTLE	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.
CAGR	Compound annual growth rate.
Cortex	ARM's latest family of processors.
DTV	Digital TV.
Ecosystem	Community of companies that work with ARM, including semiconductor companies, foundries, OEMs and software providers.
Fabless semiconductor company	A fabless semiconductor company designs computer chips. These chips are typically manufactured by a foundry. For example MediaTek, Marvell and Qualcomm.
Foundry	A foundry is a specialist company that manufactures computer chips on behalf of fabless semiconductor companies. For example TSMC and UMC.
Intellectual Property (IP)	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.
Internet of Things (IoT)	An increasing variety of digital devices are being connected to the internet either directly or indirectly via a smartphone. From pedometers to thermostats to street lights.
Licence	A licence is a legal agreement that confers certain rights to our Partners. They pay an upfront fee, which is reported as "licence revenue".
LTE	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.
Mali	ARM's family of 3D graphics processors.
Microcontroller (MCU)	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.
Original Equipment Manufacturer (OEM)	An OEM manufactures consumer products such as TVs or mobile phones. For example Apple, HTC and LG.
Partner	A Partner is a licensee of ARM's processor technology.
Physical IP	Design of the building blocks used in the implementation of an SoC design.
Processor	Design of the brain of the computer chip.
Processor Optimisation Pack (POP)	Physical IP components that have been selected and optimised to implement a processor on a specific foundry's manufacturing process.
Royalty	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".
STB	Set-top box.
System-on-Chip (SoC)	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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Our website contains information for shareholders, including regular strategic, business and financial updates.

www.arm.com/ir

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