

ARM Holdings plc

Annual Report 2013: Strategic Report

WELCOME TO OUR STRATEGIC REPORT

ARM's Annual Report is in two parts. The Strategic Report contains information about the Group, how we make money and how we run the business. It includes our strategy, business model, markets and key performance indicators, as well as our approach to governance, sustainability and risk management, and a summary of our financial management.

A copy of the Governance and Financial Report can be downloaded from www.arm.com/reporting2013.

The Governance and Financial Report contains the details about how we run the business and remunerate management, and how we organise ourselves financially.

Online you can find more information about our end markets, including case studies about how our technology is used in our customers' products. A more detailed Corporate Responsibility report is also available online.

STRATEGIC REPORT

GOVERNANCE AND FINANCIAL REPORT

ONLINE REPORTING





Our Vision

Operational highlights	2
► Financial highlights	3
▶ Chairman's review	4
► Chief Executive's statement	6
Our Performance	
▶ Our marketplace	14
▶ Our business model	16
▶ Our global reach	18
 Strategy and key performance indicators 	20
▶ Mobile computing	32
► Enterprise infrastructure	34
► Embedded computing	36
Our Commitment	
▶ Governance	38
► Sustainability	44
▶ Risk Management and principal risks	47

Our Financial Report

► Financial Report

Governance

Einancial Banart
▶ Directors remuneration report
► Directors' report
► Corporate governance
▶ Board of Directors
► Chairman's introduction

Financial Report

- Independent auditors' report to the members of ARM Holdings plc
- ▶ Consolidated income statement
- Consolidated statement of comprehensive income
- ► Consolidated balance sheet
- ▶ Consolidated cash flow statement
- ► Consolidated statement of changes in shareholders' equity
- ▶ Notes to the financial statements
- ▶ Company balance sheet/UK GAAP
- Notes to the financial statements/ UK GAAP
- Independent auditors' report to the members of ARM Holdings plc

Glossary and Group directory

▶ Glossary

52

- ▶ Group directory
- ▶ Key shareholder information



Front cover

Most major population centres are covered by 3G or 4G networks, and there were more than two billion smartphones and tablets connecting to the internet in 2013. With some mobile computers now costing as little as \$35, many more people can afford to buy a smart device. An entrylevel mobile computer may have up to four ARM®-based chips.

Downloads

More information about ARM and our end market opportunities are available on our web site.

Reports available online:

- ▶ Strategic Report
- ▶ Governance and Financial Report
- ▶ Corporate Responsibility report





www.arm.com/reporting2013

ARM technology now reaches around 75% of people in the world, with chips based on our technology driving billions of products every day. To date more than 50 billion ARM-based chips have been shipped, and our Partners are shipping more than 2.5 billion every quarter.

Our vision is to enable everyone to use technology to innovate and create new products and business models. From students to start-ups to thought-leading companies, we are enabling people and devices to connect in ways that have never been possible before. ARM works in partnership with global companies to develop products that will help to make the world a better place for everyone.

This report and my statement on pages 6-11 help bring this vision to life.

Simon Segars
Chief Executive Officer

OPERATIONAL HIGHLIGHTS

ACHIEVING MORE

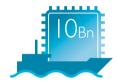
121 licences

50 companies signed 121 licences. By the end of 2013 ARM has signed more than 1,000 licences with 348 companies.



10 billion ARM-based chips

ARM's customers reported that they had shipped more than 10 billion ARM-based chips into everything from phones and tablets to smart sensors and servers. This takes the cumulative total of ARM-based chips shipped to over 50 billion



400 million ARM-based chips with Mali[™] graphics

ARM's Mali graphics processor brings games and user interfaces to life with stunning 3D graphics



Ist ARMv8-based chip shipped

The ARMv8-A architecture adds 64-bit computing, amongst other advances, and is suitable for a wide range of devices from mobile phones to servers.



Ist ARM big.LITTLE™ technology-based chip shipped

big.LITTLE technology further improves performance in energy-efficient computing devices, and first shipped in the Samsung Exynos family of chips



ARM hired net 441 full-time employees in 2013

More than 70% of these new employees joined our R&D teams



FINANCIAL HIGHLIGHTS

A PLATFORM FOR GROWTH





Normalised Operating Margin
49%

IFRS Operating Margin 21%
Includes exceptional items of £101 million.

Normalised EPS 20.6p

7.4p

Includes exceptional items of £101 million.

Cash Generation
£345m
+29%

Full Year Dividend

5.7p

+27%

CHAIRMAN'S REVIEW

INNOVATING FOR THE DIGITAL WORLD



Smart and connected digital devices are increasingly being used by billions of people all over the world, and ARM's technology is at the heart of many of the chips used in today's electronic products. Our strategy is to develop and license technology that leading semiconductor companies can then incorporate into their silicon chips. These chips go into a wide range of mobile, consumer and embedded electronics from sensors to servers.

We are committed to hiring and developing some of the most innovative and imaginative engineers who, together with supporting teams, can develop and deploy next generation processors and enabling technologies to our Partners.

SIR JOHN BUCHANAN

Chairman

Overview of the year

2013 was another successful year for ARM. During 2013, Group revenue grew 22% to \$1,117.7 million (£714.6 million). This growth enabled us to invest in both R&D and the business infrastructure that underpins future growth, at the same time as improving profitability and increasing returns to shareholders. By balancing increased long-term investment plans with improving profitability in the near term, we were able to increase the dividend by 27% to 5.7 pence per share.

The 121 licences that we signed in 2013 demonstrate that we have a portfolio of processors and supporting technologies that enable companies to build their products for future electronic devices. From our customers' royalty reports, we know that they shipped more than 10 billion ARM-based chips in 2013 (a 20% increase over 2012), as they see increasing demand for low-power smart products from consumers and enterprises.

2014 will bring exciting opportunities and challenges as ARM competes in new markets where we are well positioned to succeed with our leading technology, innovative business model and thriving ecosystem of Partners.

Our Performance



The knowledge and creativity of our people and the ability to deliver customer satisfaction in an increasingly demanding and competitive environment are the key determinants of our success.



ARM's clear business strategy continues to serve the Group well, as demonstrated by the innovation and quality of our products, and also in the leadership, talent development and strong culture of the organisation. Whilst innovation thrives throughout the wide range of mutually beneficial partnerships that make up the ARM Connected Community, we must not underestimate the challenges of the wider economic environment, nor of the strength and quality of the competition in the markets we serve.

Success in a challenging environment

ARM is developing technology for the mobile and embedded computing applications and our latest products are opening up markets such as servers and enterprise networking. ARM is facing well-funded competition in both these new areas and also in the mobile computing market where ARM has a large share.

ARM's Partners are also amongst the companies developing technologies for the nascent Internet of Things, where there will be new competitive threats, from new technology and business models. ARM will remain vigilant, seeking to ensure that we are positioned competitively with suitable technology, an innovative business model and a diverse range of Partners.

The ARM team

The knowledge and creativity of our people and the ability to deliver customer satisfaction in an increasingly demanding and competitive environment are the key determinants of our success. We continue to attract outstanding people and in 2013 we hired a net 441 additional employees, the majority of them engineers working in processor design and software development. These new hires were a mix of new graduates and experienced talent from all over the world.

CEO succession

In March 2013 ARM announced that Warren East, ARM's CEO since 2001, had decided to retire effective from 1 July 2013. Simon Segars, previously ARM's President became the Group's CEO from that date.

Warren helped to transform ARM during his time as CEO. In 2001, ARM had one processor product line, mainly used in mobile phones. He led the Group to create a broad portfolio of technologies in the industry, deployed in a wide range of markets. On behalf of the Board, and the wider ARM team, deep thanks are due to Warren for his passion, service and leadership.

Simon Segars has been with ARM since 1991 and has held several executive roles including EVP Engineering, when he worked

on many of the early ARM processors, as well as EVP Worldwide Sales and EVP Business Development. He joined the Board in January 2005, and as President of ARM had operational responsibility for the company's IP divisions. Simon's proven technology expertise and management skills across a range of senior executive roles made him an excellent choice for CEO and he is highly qualified to take the Group forward.

Chairman succession

In January 2014, ARM announced my decision to step down from the ARM Board due to a medical condition. My successor is Stuart Chambers, who brings board and executive experience both in the UK and globally gained through his executive and non-executive roles with global companies. It has been a great privilege to serve as Chairman of ARM and I have greatly enjoyed my time on the Board of this fine company.

In conclusion, I would like to thank all of ARM's employees for their effort and contribution in 2013, including the Board, Warren and Simon, and the leadership team. I look forward to seeing ARM's technologies unlocking the potential of new opportunities for innovators across the mobile world and beyond and being ubiquitous in the products that we use today and in the future.

CHIEF EXECUTIVE'S STATEMENT

VISION FORTHE FUTURE

This has been a successful year for ARM and an exciting year for me. On 1 July 2013, 1 succeeded Warren East to become ARM's Chief Executive Officer and lead the Group through its next stage of development. In his 12 years in charge, Warren oversaw:

- ARM's strategy to transform mobile phones into smartphones and evolving into tablet computers.
- ▶ ARM technology being chosen for use beyond mobile devices, with our customers deploying ARM-based chips in everything from sensors to servers.
- More than 45 billion ARM-based chips shipped by 150 companies during his tenure.
- ARM broadening its technology offering to include a range of processors for different end markets, including graphics processors and supporting physical IP technology and software tools

2013 was my 23rd year at ARM, as I was one of ARM's original handful of engineers embarking upon a new business designing processors. That small business has now grown into a global technology leader with 2,833 employees. ARM's success over the years is in no small part down to our collaborative approach in how we manage ourselves internally and in how we work with our industry partners.

As the new CEO of ARM, I know that retaining our leadership position is going to be, at times, both challenging and exciting. I am very grateful for the guidance and support I have received from our Chairmen (both retiring and incoming) and my colleagues on the Board since I took on the CEO role. The hard work and support of our executive team and all of ARM's employees has also been significant to our continuing success, as is the trust of our Partners that ARM will continue to provide them with the best technology for their products. The future holds even more opportunity for ARM and for our Partners as they invest in innovation, and create technologies for decades to come.



One of the best things about being CEO of ARM is seeing our technology used in many of the most innovative products available today.

Simon SegarsChief Executive Officer

From mobile phones to the Internet of Things

ARM technology can be found in billions of mobile and connected devices. In 2013 alone more than one billion smartphones shipped, growing the installed base to approximately two billion, and the smartphone market is forecast to grow at a 10% Compound Annual Growth Rate (CAGR) over the next five years.

The impact of mobility and connectivity brings new levels of freedom to consumers to access their data, and much more besides. New products and services have been created, such as downloadable apps and content, and devices that can be wirelessly attached to or controlled by a smartphone. Expanded mobile networks are being deployed and new data centres are being developed as we download more content and generate more data. And now other products and devices are being connected to networks such as healthcare equipment, shipping containers, white goods in the home, industrial equipment and even light bulbs. Together, these factors are leading to the creation of a massive "Internet of Things"

Internet of Things

To better understand the business drivers for the Internet of Things, we commissioned a report from the Economist Intelligence Unit. Go to www.arm.com/IOT to download the report.



ARM is well positioned to take advantage of the growth in the mobile devices market, to benefit as new networks and data centres are built, and to be the primary technology within embedded computing and the Internet of Things.

Meeting Global Challenges

Digital technology based on smarter electronics has played a huge role in making today's society a better place for all of us. Technology has an even greater role in the challenges that lie ahead. Over the next few pages we look at some of those challenges and how technology is already helping to overcome them.



CHIEF EXECUTIVE'S STATEMENT CONTINUED

Health and wellness

Many of us are trying to improve our health and fitness by being more active. Some devices now monitor our activity and location, and measure how much we have exercised and how many calories we have burned. These devices can be a useful motivator to encourage us to go for a walk and get some exercise, especially if we have been sat in the office all day. Other devices can be used to provide security for those that are potentially vulnerable such as older people at risk of illness or falls, or young children.

Energy efficiency in networks

With smartphones and tablets growing rapidly and the introduction of new devices to connect to the internet, we are entering an age of hyper-connectivity. It is forecast that there will be a five-fold increase in data transferred globally between 2012 and 2017. This is reshaping the requirements for networking infrastructure and our data centres that must carry and store all this data. To avoid an unsustainable increase in energy consumption and carbon footprint, it is no longer enough to just build "more performance", operators and equipment must provide "more performance per watt".

Environment

Managing and monitoring the use of natural resources becomes increasingly important as the world's population grows, and the standard of living increases. Therefore it is important that we maximise the benefit from cultivated land and the use of water and energy, whilst minimising the harmful impact from pollution and waste. Smart electronics can be used to monitor and control the use of critical resources, and ensure that the right amount of water and nutrients is applied to crops. Using cloud-based computing, these sensors can be linked together across very large areas to maximise the productivity of farms and regions.



ARM-based Pebble Smartwatch

It was the Pebble that has made the world interested in Smartwatches, with its incredible innovation and great style. Wearers want a watch that connects seamlessly to their devices and can run for days so they can enjoy all the benefits of their smart watch without worrying about performance or battery life.



HP Moonshot: Based on chips using the ARMv7 and ARMv8 Architecture

With nearly 10 billion devices connected to the internet and predictions for exponential growth, we've reached a point where the space, power, and cost demands of traditional technology are no longer sustainable.

HP Moonshot marks the beginning of a new style of IT that will change the infrastructure economics and lay the foundation for the next 20 billion devices.



Intelligent Agriculture with OnFarm

OnFarm provides intelligence to farmers to improve their yields and reduce the use of consumables such as water, fertiliser and pesticide. This is achieved by gathering data from multiple sources, including sensors placed in and around crop fields and orchards. With the innovation taking place around ARM-based sensors and the emergence of low-cost and long-range wireless technologies, we see lower-cost devices being deployed in vast numbers to provide granular data to the agricultural industry.



For more information on technology in health and wellness: Daniel Kraft, MD, presenting the "Future of Technology in Health & Medicine" at ARM's TechCon 2013



For more information on how ARM and HP are working together in this area: Martin Fink, CTO HP Labs, presenting on "The New Style of IT & HP's Moonshot" at ARM's TechCon 2013



For more information on how the internet of things can make the world a better and more efficient place: Nandini Ramani, VP Java Platform at Oracle presenting "Enabling Compelling Services for IoT" at ARM's TechCon 2013

Transport

In 2008, for the first time in history, over half of the world's population lived in urban areas and by 2050 this will have risen to 70%. Congestion is already a huge problem in many cities, especially in peak commute times. By building intelligence into transit systems and cars, we can make our public transport and private car travel much more efficient. With smarter infrastructure that knows the location of vehicles, and can communicate with them, we can increase the capacity of existing roads and railways, and predict and plan the best routes for travellers, directing vehicles away from accidents or overloaded intersections.

Productivity through education

Many parts of the education system haven't changed for many years, and no longer match the needs and expectations of a modern child, leading to a lack of engagement. At the same time, a large number of children have very little access to information, leading to fewer opportunities for a good education. Some educations systems are looking to both reach a wider audience and to effectively engage with them through the use of technology.

Productivity through lowering the barrier to entrepreneurship

New products and services are created when entrepreneurs see an opportunity to enter a new market with the resources to do something about it. Over the last few years computing has become more accessible, so creating a new ARM-based product has never been easier for more people. This is helping to drive a new era of innovation.



Smart Parking with Streetline Networks

Smart parking reduces traffic and pollution, making happier citizens and more cost-efficient cities. Dust Networks' wireless mesh network solution, featuring the ARM Cortex®-M3 processor, enables Streetline Networks to reliably gather the real-time status of municipal metered parking spots, and use that data to reduce traffic congestion.



Improving education in Thailand with tablets

The "One Tablet Per Child" (OTPC) policy was launched by Prime Minister Yingluck's government in 2012 in an attempt to improve Thai education. In 2013, OTPC tablets were provided to the Ministry of Education by firms including Shenzhen Scope, featuring Rockchip RK3066 with dual-core ARM Cortex-A9 processor and quad-core ARM Mali-400 MP4 Graphics Processing Unit (GPU), with an average cost of around \$80 per tablet.



Making (almost) anything with a 3D printer

Robox® is CEL's 3D printer. You can print with many materials to create solid, usable 3D objects and prototypes. It contains an Atmel ATSAM3U2EA microcontroller, powered by an ARM Cortex-M3 processor.



For more information on how Streetline is making parking smarter near you download the Streetline's Parker app



For more information on how the Scope tablet is being used in Thai schools: ARM technology is addressing many of the world's challenges, including education



For more information on how ARM technology is encouraging innovation around the world: Simon Segars, ARM CEO, presenting his vision for transformative technology at ARM's TechCon 2013

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Enabling innovation at ARM

ARM employs some of the most creative and innovative people in the industry, who have the vision and drive to develop and deploy the best technology. Together with our partners we are developing some of the technology that can make the world a better place for everyone. The ARM team is bound together by a set of principles and behaviours by which we operate. These principles and behaviours have evolved as the Group has developed, and still hold true today.

We consider the following as essential elements of the behaviour of an ARM employee in whatever discipline they work: teamwork and selflessness; constructive proactivity; partner and customer focus and responsiveness. In addition, we encourage all employees to take pride in innovation and in their own self-development.

The focus of our business model is to create technologies that are well suited for many Partners to use in a diverse range of markets. The creativity of our employees therefore rests in our ability to listen to

and understand the needs of our semiconductor and OEM Partners. We then combine their inputs with our own research to create the next generation of our technology designs. This close collaboration with our Partners requires the ARM team to be open to new ideas and suggestions. Internally we encourage managers to take a consensual approach to leading teams, and as those individuals become successful, so we are developing the leaders who will manage the Group within ARM's broad and diverse ecosystem.

More than two-thirds of ARM's employees are engineers, specifying and inventing new technology to be licensed. ARM's non-engineering employees focus on the deployment of this technology; marketing and sales maintain the essential relationships with our Partners, legal and licensing teams support negotiations, infrastructure teams provide the delivery mechanisms, finance teams manage financial matters, and HR teams support the ongoing development of a high performance, high engagement organisation in which our people can innovate, collaborate and grow.

Many of our customers are global semiconductor companies, which clearly requires an international focus. Today we have 31 offices in 15 countries, with R&D development sites in UK, US, China, France, Germany, Taiwan and India. We have a strong culture of encouraging internal communication and interworking between sites. We believe strongly in spending time with our customers and have established offices in the major regions where our customers develop ARM-based products.

These shared principles and behaviours have evolved over the last 23 years, during which the ARM team has increased to provide technology to the growing ecosystem of Partners. These shared principles still guide us today and I am confident that they will help the ARM team to continue to develop, create and license technology for years to come.

2,833



WE ARE SUPPORTED BY

- ▶ Families
- Communities
- ▶ Local government
- Suppliers
- Investors

ARM'S SHARED PRINCIPLES AND BEHAVIOURS

INTERNAL

- ▶ Delivery of result
- Teamwork and selflessness
- Constructive proactivity
- ▶ Partner and customer focus
- Responsiveness
- Innovation
- Personal development

EXTERNAL

- Listen and understand customer and Partner needs
- ▶ Partner and customer focus
- Responsiveness
- ▶ Being a good neighbour to local communities
- ▶ Increasing shareholder value

WE SUPPORT

- ▶ 100s Customers
- ► 1,000s ecosystem partners
- ▶ 1,000,000 Developers

Multi-discipline teams work together to determine strategy

Manage across diverse companies and ecosystem

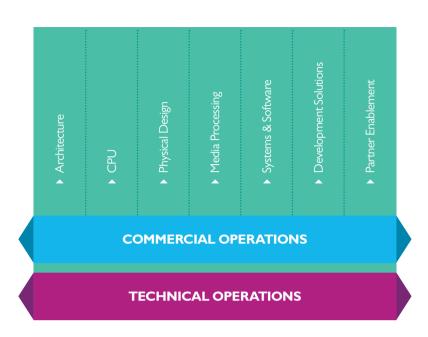
Enabling innovation everywhere

The use of digital technology and smarter electronics will continue to grow as we meet the increasing demands of society, and as previously unconnected devices become smarter and connected into the digital world. This is creating a huge opportunity for the semiconductor industry, and ARM is well positioned to benefit both from increasing sales of computer chips, and also increasing our market share with our smart, power efficient technologies.

Mobile communications and mobile computers were just the first markets to need smart electronics, and almost all mobile devices sold today contain at least one ARM-based chip. The smartphone market grew by about half in 2013, with many consumers upgrading from voice-only phones. Over the next few years, the smartphone and mobile computer markets are expected to continue to grow strongly, especially in emerging markets where mobile computers can become an essential tool for education, business and supporting community projects.

As other devices become smarter and the need for power efficiency increases in other markets, so our opportunities grow. During 2013, we saw high numbers of chips containing our technology being sold into enterprise networking, and the first ARM-based server chips sold. We expect these markets to become increasingly significant to us over the next few years.

ARM is also seeing strong growth in chips for embedded computing that go into a wide range of end applications, from washing machines to robotics. These chips are often very low cost, and sell into a very broad range of markets that add up to huge volumes. In 2013 more than three billion ARM-based chips were sold into these products, an increase of 35% on the previous year. Many companies are investing in innovation into these categories of chips to meet the needs of the Internet of Things. In 2013, ARM licensed Cortex-M class processors to 47 companies. This market could grow to 30 billion chips by 2018.



Organising for an increasing opportunity

As ARM technology is increasingly deployed by more companies into more applications, we need to ensure that ARM is organised to meet the challenges of higher expectations from more customers and more end markets. At the beginning of 2014 I restructured the Group to create an organisation that is more scalable and more accountable; one that will offer our customers a more joined-up product portfolio, ensuring better integration of our technologies in our customers' products. We therefore no longer have separate divisions, but instead a single product development team consisting of seven product groups, all reporting into Pete Hutton, EVP and President Product Groups. Pete will be responsible for the integrated product development and delivery of ARM's business lines. In addition, he will manage two cross-functional teams that will help ensure alignment between the product groups' roadmaps and execution.

These product groups will be further supported by Antonio Viana, EVP and President of Commercial and Global Development, who manages our commercial team, and Ian Drew, EVP and Chief Marketing Officer. Together Antonio and Ian will develop the ecosystem of companies that is so important to ARM's long-term success.

Well positioned for the future

ARM's expertise, technology, business model and ecosystem mean that we are well positioned to take advantage of the growing opportunity as technology meets some of the key challenges that face society. We are also continuing to investigate new markets and opportunities, as well as developing the skills and capability of ARM's employees so that they can develop the next generation of technology that will enable our customers to create innovative products.

ARM gains share as our customers use more of our technology in their chips. We work very closely with leaders across the industry to ensure we are developing the right technology for their designs. This collaborative approach comes from ARM's own internal culture and is something we carefully manage as we grow in size, both in terms of increased headcount and market influence and responsibility.

As the new CEO of ARM, I am excited by this opportunity. I am confident that ARM's expertise, together with our Partners' creativity and diversity, means that we will be at the forefront of the new products and services that will help to make the world a better place for everyone.

Simon Segars

Chief Executive Officer

HELPING PEOPLE PERFORM



"Wearable" technology is helping to keep us fit and healthy. Many people use ARM-based digital pedometers to keep track of steps travelled and calories burned. These devices may be synchronised with a smartphone app that can record the calories consumed, and so give information to keep us healthy and motivated. Keep on running.

More information about embedded ARM-based devices can be found on pages 32–37 and also online.

www.arm.com/reporting2013



OUR MARKETPLACE

WHERETHE MARKET IS NOW

The semiconductor industry develops chips that efficiently manage all of the world's electronic devices. PCs, mobile phones and even modern washing machines have some form of chip providing their intelligence. Each generation of chip is typically smarter than its predecessor, enabling more capable and more efficient consumer and embedded products.

Overview of a semiconductor

Semiconductors, or silicon chips, are the electronic controllers that manage many of the digital devices that we use every day. Computers, mobile phones, televisions, washing machines and cars can all contain many silicon chips. Also, many enterprise and industrial applications are made smarter and more efficient by silicon chips, from sensors to servers.

In 2013, approximately 700 billion silicon chips were manufactured. Of these roughly 30 billion contained a processor. The processor is the brain of the chip, and controls not just the operation of the chip, but also the operation of the product that chip goes into. ARM processor designs were in over 10 billion chips, a 35% market share. The remaining market share mainly consists of our customers' own processor designs. ARM gains share when our customers

Disaggregated industry

The semiconductor industry has disaggregated into specialist companies that focus on each stage in the creation, design and manufacture of a silicon chip (see the diagram below). This allows each company to invest and innovate in an area where they can add the most expertise in the value chain.

Some companies specialise in designing the chip; other companies specialise in designing critical IP components within the design; others in building the tools needed to manufacture the chips; others in the chip fabrication; and others in developing software, such as operating systems and apps. All of these companies work closely together as a single ecosystem of partners.

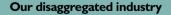
In 2013, there were over 1,000 companies in ARM's Connected Community.

ARM shares knowledge, experience and innovations with these companies, enabling greater collaboration.

Where ARM fits within the industry

ARM is the global leader in the design of semiconductor IP components that form some of the critical elements within System-on-Chip designs. ARM is best known for its family of processor designs that are used in a range of applications from mobile phones to car braking systems. There are a handful of other IP component designers that mainly specialise in complementary areas. Their IP can often be found alongside an ARM processor in the same chip design.

ARM works closely with the semiconductor ecosystem to ensure that its technology works well with other companies' products, that a silicon chip designer can quickly build a low-power and high-performance chip, and that an OEM can create complex programs using a combination of third-party and inhouse operating systems and applications. As silicon chip designs become more complex it is expected that the semiconductor industry will continue to license semiconductor IP. As the global leader, ARM is well-positioned to benefit from this trend.



 I,000s of OEMs

Operating

Systems

1,000,000,000s of consumers

I,000s of application developers

1,000s of service providers

WHERETHE MARKET IS HEADING

Trends within the semiconductor industry and its marketplace are bringing new opportunities and new competitive threats.

Mobile computing – connecting us to each other, and our data.

Mobile phones have been getting smarter and more capable. Smartphones have become the primary computer for increasing numbers of people; for sending emails, browsing the internet, and allowing us to engage with our friends on social networking sites. Meanwhile, PCs have been getting smaller and lighter, with a longer battery life and better connectivity. The mobile phone and PC markets are converging, enabling us to connect more easily to each other and to our personal and workplace data. This convergence is bringing new opportunities and threats to the industry.

The fastest growing markets are entry-level smartphones and tablets. These are forecast to grow at about a 20% CAGR over the next five years, as consumers in emerging economies buy their first smartphones. Although these are entry-level handsets, these devices can still contain multiple ARM-based chips, and the main applications processor will often have several ARM processors. An entry-level smartphone will typically generate four times the royalty revenue of a simple voice-only phone. The mid-range and premium markets will also grow, and in 2018 it is estimated that the total mobile computing market will be more than 3 billion devices including smartphones, tablets and laptops.



read more on page 32

Internet of Things – connecting billions of smart sensors.

Advances in manufacturing technology are enabling the creation of new affordable smart sensors. These devices usually combine three main elements:

- ➤ One or more environmental sensors (temperature, pressure, motion).
- ► A smart chip (microcontroller) to process the data gathered by the sensor.
- ▶ A wireless radio to connect the smart sensor to the internet.

Data gathered from these sensors can then be collated anywhere in the world enabling remote monitoring of the sensors for such applications as:

- Industrial automation: factory equipment in a region can be monitored from a head office.
- Home automation: appliances in the home can be monitored and controlled by the home owner wherever they are.

Collectively these technologies are referred to as the Internet of Things. These smart sensors need to be very low-cost (the chips within them often cost less than \$1) and they are expected to be deployed in very high volume.



read more on page 36

Efficient networking – moving more data, without using more energy.

With mobile computing connecting us to each other, and increased machine-to-machine communications between smart sensors, it is forecast that mobile internet traffic will increase I2-fold between 2012 and 2017*. As IT and communications equipment is using an increasing proportion of the world's energy such an increase is not sustainable.

Network operators and data centre managers are now looking for lower power technology to better transport, distribute, analyse and store data across the internet. This is leading to increased levels of experimentation and innovation as companies manage the increased demand for data throughput, without having to increase the energy required.

ARM technology-based System-on-Chip designs are well placed to provide lower power options for enterprise applications, such as servers and networking equipment

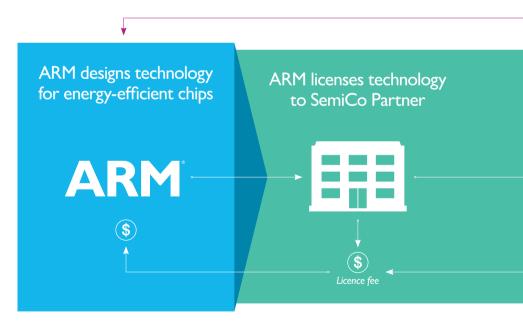


read more on page 34

OUR BUSINESS MODEL

HOW AND WHERE WE MAKE MONEY

ARM is the world's leading semiconductor intellectual property (IP) supplier. The technology we design is at the heart of many of the digital electronic products sold in the world. ARM has an innovative business model. We license our technology to a network of Partners, mainly leading semiconductor companies. Our Partners incorporate our designs alongside their own technology to create smart, energy-efficient chips.



- I. ARM designs technology to go into energy-efficient chips for a broad range of end markets. ARM licenses each design to multiple semiconductor companies. Every company pays an upfront licence fee to gain access to the design.
- 2. The semiconductor company will incorporate the ARM technology design into their chip. It can take 2–3 years to build a chip and a further year for an OEM to build their product, such as a digital TV or mobile phone, containing the chip. When the chip starts to ship, ARM receives a royalty on every chip that uses the design. Typically our royalty is based on the price of the chip.

Why semiconductor companies use ARM technology

ARM designs technology that would be difficult and expensive for our Partners' R&D teams to develop for themselves. It is more cost effective for our Partners to license the technology from ARM than to develop it internally. The design of a processor or a library of physical IP requires a large amount of R&D investment and expertise. We estimate that a major semiconductor company would need to spend over \$100 million every year to develop their own architecture. This represents more than \$20 billion of annual costs for the industry. By designing once and licensing many times. ARM spreads the R&D costs over the whole industry, making digital electronics affordable and therefore available to more and more people across the world.

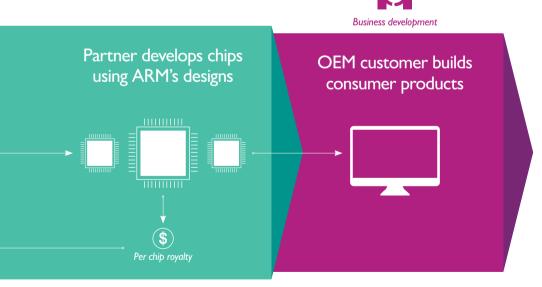
Technologies that are suitable for the ARM business model

ARM's licensing business started in the early 1990s with the development of our first processor. The processor is like the brain of the chip; it is where the software runs and it controls the functionality of the product. ARM designs each processor to be applicable to a broad range of end markets to maximise the number of Partners that can license each processor and to maximise the number of markets in which the Partner can deploy that technology.

In most years ARM introduces 2–3 new processor designs. Over the past ten years, ARM has developed other technologies suitable for our licensing and royalty business model, such as graphics processors and physical IP components. Both of these technologies are now licensed widely and are generating royalty revenues.

How ARM creates value

ARM endeavours to recover its costs from the licence revenues of each technology, leaving the majority of royalties to be reinvested back into the business or to be returned to shareholders. Over the medium term, we expect ARM to become more profitable as our partners design our technology into a broader range of end markets. As our customers include the world's largest semiconductor companies, their regular royalty payments have become a reliable cash flow.



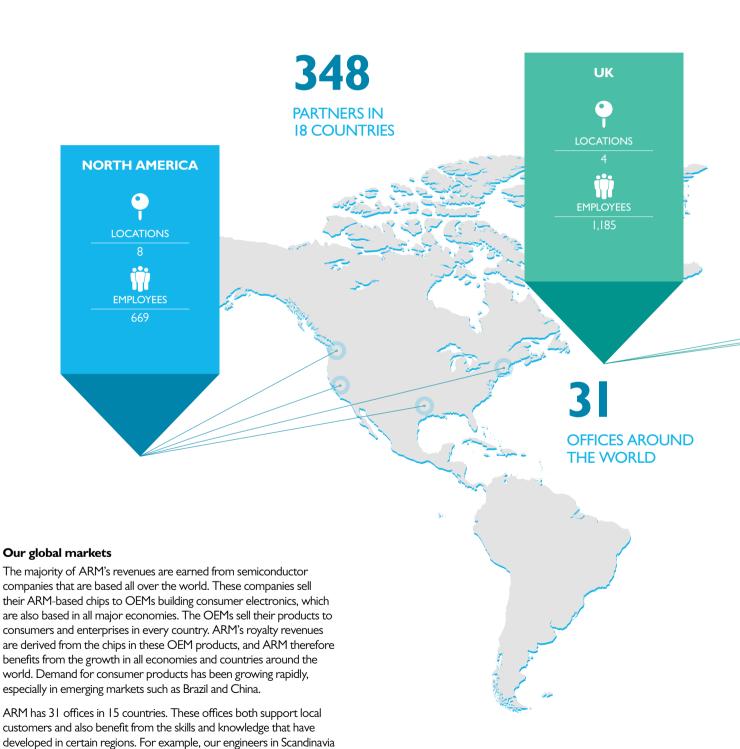
ARM technology in the hands of millions



- 3. Each ARM design is suitable for a wide range of end applications and so can be re-used in different chip families addressing multiple markets. Each new chip family generates a new stream of royalties. An ARM design may be used in many different chips and may ship for over 20 years.
- **4.** ARM's flexible business model has proven to be suitable for different technologies, end products, licensing strategies and a broad range of ecosystem Partners.

OUR GLOBAL REACH

WHERE WE WORK TOGETHER



Oulu, Finland.

are specialists in multimedia technologies such as video and graphics processing. During 2013, ARM opened offices in Noida, India and

OF THE WORLD'S POPULATION USED AN ARM-BASED PRODUCT

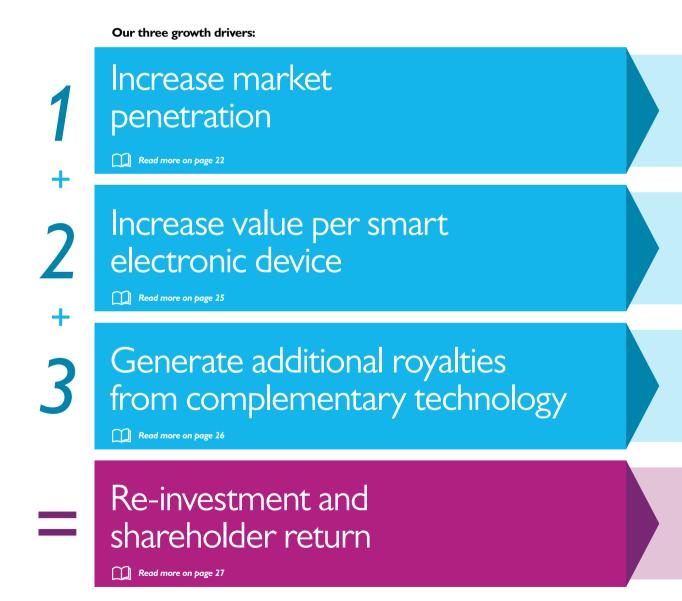
IN 2013

19

STRATEGY AND KEY PERFORMANCE INDICATORS

OUR STRATEGY FOR LONG-TERM GROWTH

ARM's strategy is for our technology to continue to gain market share in long-term growth markets, to increase the value ARM receives from each device, and to develop new technologies that can generate additional royalty revenue.



Progress against strategy

ARM has achieved a more than 95% penetration of mobile handsets. As other end markets require smarter processors, we expect ARM technology to increase market share in other application areas.

As consumer products become smarter they often contain multiple ARM-based chips, increasing our royalty opportunity. Smarter phones and TVs can generate 5–20 times more royalty than a basic model.

ARM has introduced complementary technologies which we believe are suitable for R&D outsourcing and can command an upfront licence fee and an ongoing royalty.

ARM's financial discipline balances the need for continued investment to generate long-term future growth, whilst increasing today's profitability and shareholder returns.

KPIs

- ▶ Building the base of licences that will drive future royalties.
- ▶ Growing the number of ARM-based chips.
- ▶ Increasing market penetration in target end markets.

Increasing the value that ARM receives for every smart device sold.

 Developing and licensing new technology to generate additional royalty streams.

- Investing in ARM's product development and deployment capability.
- Growing normalised operating margins, EPS, cash generation and dividends.

1

Increase market penetration

The Samsung Chromebook delivers outstanding and hassle-free performance at an affordable price. As of May 2013, the Samsung ARM Chromebook has led Amazon's list of best-selling laptops. It is based on the Samsung Exynos 5 Dual system-on-chip, which is powered by a dual-core ARM Cortex-AI5 processor and a quad-core ARM Mali-T604 GPU.



KPI

BUILDING THE BASE OF LICENCES THAT WILL DRIVE FUTURE ROYALTIES

Every licence represents the opportunity for a future royalty stream. In recent years, ARM has added about 100 processor licences per year to its existing base of licences. In 2013, we signed 121 processor licences taking the licensing base to more than 1,000 licences. This growth in the number of licences signed is largely due to existing customers upgrading their ARM processor to the next generation; existing customers choosing to deploy ARM technology into another part of their product portfolio; and new customers taking their first ever ARM processor licence.

About a quarter of the deals signed in 2013 were signed with companies taking their first ARM processor licence. The majority of these new Partners are established semiconductor companies choosing ARM technology for the first time. As the trend towards smarter products gains pace, so semiconductor companies are finding ARM technology instrumental in helping them gain share in an increasingly competitive marketplace.

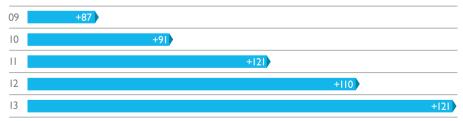
Our Partners are planning to develop chips for a broad range of end markets from the simplest of microcontrollers to the most advanced servers. These include:

- internet connected consumer devices, such as digital TVs, mobile phones and mobile computers;
- ▶ deeply embedded products, such as microcontrollers, sensors and smartcards;
- enterprise applications, such as networking equipment, carrier infrastructure and servers.

The future opportunity

ARM expects that its customers will continue to re-equip their R&D teams with the latest processors for existing product lines. In addition, ARM's technology is becoming increasingly relevant to growing markets such as sensors, computers and servers, leading to more new customers acquiring their first ARM licence.

ARM licences

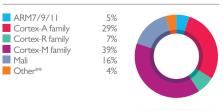


ARM signed 121 processor licences in 2013, taking the total number of processor licences signed to 1,062.

Number of licences signed by end market in 2013



Number of licences signed by processor type in 2013



^{*9%} of licences were signed with companies intending to use ARM technology in multiple end markets.

^{**}Other includes architecture and subscription licences.

KPI

GROWING THE NUMBER OF ARM-BASED CHIPS

In 2013, ARM's customers reported more than 10 billion chips shipped, a 20% increase over 2012. By comparison, the industry grew 6% in the equivalent period.* This demonstrates ARM's increasing relevance to equipment manufacturers as they choose ARM-based chips over chips containing proprietary processor designs.

ARM's total market share rose to 35%, up from 32% in the prior year. The mobile phone was the first consumer electronic device where ARM-based chips started to be widely deployed. In 2013, ARM-based chips could be found in more than 95% of the world's mobile phones. ARM's Partners sold 4.8 billion chips into mobile devices, driven by the growth in the number of smartphones and mobile computers.

ARM has been seeing rapid adoption of its processor technology into markets such as digital TVs and microcontrollers. In 2013, for the first time, ARM's Partners sold more chips into non-mobile markets than into mobile devices. Overall they sold 5.6 billion chips into non-mobile applications.

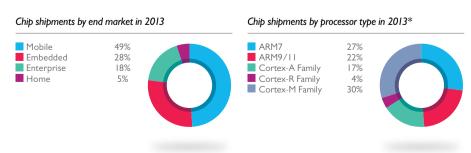
The future opportunity

ARM expects unit shipments and royalty revenues to grow faster than the semiconductor industry as ARM continues to gain market share. Shipments of ARM-based chips are growing most rapidly in microcontrollers as several major semiconductor vendors ramp into full production, and also in mobile computing products such as smartphones and tablets.

* Source – WSTS, January 2014. Excludes memory and analog chips.



ARM Partners reported the highest ever number of ARM-based chips shipped in 2013.



^{*}Nearly all Mali graphics processors were in chips containing a Cortex-A family processor.

ARM HAS SEEN INCREASED DESIGN ACTIVITY IN ENTERPRISE NETWORKING, AND THE FIRST ARM-BASED LOW-POWER BASE STATIONS WERE ANNOUNCED IN FEBRUARY 2013.

KPI

INCREASING MARKET PENETRATION IN TARGET END MARKETS

ARM has increased market penetration into each of its key end markets in mobile phones, set-top boxes and digital TVs, disk drive controllers and microcontrollers. ARM has announced new technology developments that will position our customers to enter markets such as computers, servers and medical devices.

Mobile phones >95%

For many years, mobile phones have used ARM processor-based chips in most of the applications processors and baseband modems.

Enterprise networking 5%

ARM has seen increased design activity in enterprise networking, and the first ARM-based low-power base-stations were announced by Huawei and NSN in February 2013. Sales of ARM-based enterprise networking chips are expected to gradually ramp up over the next few years.

Digital TVs 50%

As digital TVs become smarter they are more likely to need an ARM processor-based chip. In a smart TV, these chips can run the operating system and applications.

Microcontrollers 22%

The microcontroller and connected sensor market is highly fragmented and OEMs are increasingly requesting that their semiconductor suppliers use a common processor architecture. ARM is often the choice as it is a suitable architecture that is available to all semiconductor suppliers.

The future opportunity

All of these target end markets have promising long-term growth prospects and ARM's market share gains look set to continue as many of ARM's Partners have announced new products in these areas.

Market penetration

Year	Mobile phones (%)	Enterprise networking (%)	DigitalTVs (%)	Microcontrollers (%)
		(76)		(%)
09	>95	0	30	5
10	>95	0	35	8
11	>95	0	40	15
12	>95	1	45	18
13	>95	5	50	22

ARM has gained share in all its target end markets. Market share is calculated as the percentage of ARM-based chips as a proportion of chips estimated to contain some form of processor technology. Market data from Gartner, January 2014.

Increase value per smart electronic device

The Yulong Coolpad 7231 entry-level smartphone is promoting 3G uptake and dual sim cards in China by bringing consumers cost-effective mobiles that are comparable to the world's top smartphones. The SoC is based on MediaTek MT6572, which brings one of the first dual-core SoC with integrated platform for the lower end of the midmarket smartphones featuring power-efficient dual-core ARM Cortex-A7 CPU and ARM Mali-400 GPU.



KPI

INCREASING THE VALUE THAT ARM RECEIVES FOR EVERY SMART DEVICE SOLD

Sales of chips into smart devices such as smartphones and high-end digital TVs generate higher royalty revenue than basic phones and TVs.

Typically, ARM's royalty revenue per device can increase the smarter the device gets. Smarter devices may generate more royalty revenue because they may contain:

- more chips than basic models;
- more expensive chips than basic models;
- more advanced ARM technology that commands a higher per-chip royalty.

During 2013, the total number of smartphones sold increased by about 50%.*

We also saw sales of ARM-based mobile computers, such as tablets, grow to 200 million. In this period, shipments of ARM's advanced Cortex-A family of processor doubled to 1.8 billion.

Cortex-A processors typically command a higher percentage per-chip royalty than previous ARM families, which helped ARM's dollar processor royalty revenue to grow by 19% despite the overall industry only growing by 1%.**

Our Financial Report

The future opportunity

ARM expects that as consumer electronic devices become smarter they will incorporate more chips that could be ARM technology-based. Some of these chips may be based on the Cortex-A family of processors, thus generating higher royalty revenue per device. In 2014 ARM expects that multiple semiconductor companies will ship chips incorporating processors designed with its latest ARMv8 architecture. These chips typically generate a further increase in the royalty revenue per device.

ARM value per mobile phone (indexed to 2009)



ARM royalty per mobile phone has continued to increase.

^{*} ARM estimates.

^{**} WSTS, January 2014.

Generate additional royalties from complementary technology

The new Samsung Galaxy Note 3 has been developed as the ideal device to help you stay on top of your busy life. It is based on the Samsung Exynos 5 Octa (5420) system-on-chip, which is designed using the ARM big.LITTLE technology, featuring quad-core ARM Cortex-A15 processor running at 1.9GHz and quad-core Cortex-A7 processor at 1.3GHz, as well as ARM Mali-T628 MP6 GPU.



KPI

DEVELOPING AND LICENSING NEW TECHNOLOGY TO GENERATE ADDITIONAL ROYALTY STREAMS

During 2013, ARM continued to develop new technologies that are suitable for licensing to leading semiconductor companies, and for generating additional royalty streams in the future.

Multimedia IP for 3D gaming and HD video

Many consumer electronic devices utilise 3D graphics and High-Definition (HD) video to improve the visual experience and make games more engaging. Mobile phones, digital TVs and computers are familiar, and other applications such as cars, media players and navigation devices are emerging.

During 2013, ARM signed 19 Mali graphics IP licences, and leading technology companies such as MediaTek and Samsung launched computing, mobile and consumer electronics devices incorporating chips based on ARM's multimedia IP. During the year our Partners reported shipping 400 million chips containing a Mali graphics processor, more than double the number shipped during the previous year.

Physical IP for advanced manufacturing processes

ARM develops physical IP for use by leading semiconductor companies that manufacture chips using advanced manufacturing processes. ARM is the leading physical IP provider and is well placed as semiconductor companies increasingly outsource manufacturing to ARM's foundry Partners.

During 2013, ARM saw strong licensing, especially for advanced processes, signing three foundry platform licences for ARM's physical IP that will drive future royalty revenues. In addition, ARM signed 16 licences for POP IP (pre-configured physical IP components) which assist Partners in implementing ARM processors. We also received our first royalty revenue from physical IP used in 20nm manufacturing process, and we created test chips at 16nm and 14nm, which may yield royalty revenue in 2014 and beyond.

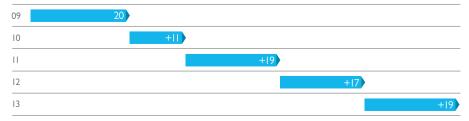
The future opportunity

With a growing base of customers just starting to sell their chips in high quantities, we expect that the number of chips enabled by ARM's physical IP and Mali graphics technology will continue to grow in the future.

Physical IP revenues (\$m)



Mali graphics number of licences signed





IN 2013, ARM HIRED A NET ADDITIONAL 441 PEOPLE. THE MAJORITY OF OUR NEW HIRES WERE ENGINEERS, TO INCREASE OUR R&D CAPABILITY.

KPI

INVESTING IN ARM'S PRODUCT DEVELOPMENT AND DEPLOYMENT CAPABILITY

ARM specialises in designing innovative technology and developing a sophisticated community of Partners to bring that technology to market. Our people are our strength for designing the next generation of technology, delivering it to our customers, and for growing and maintaining the ARM Partnership. ARM invests in our employees through hiring a mix of graduates and seasoned industry experts, developing them and providing a supportive culture to maximise their capability and potential.

In 2013, ARM hired a net additional 441 people. The majority of our new hires were engineers, to increase our R&D capability. Most of this investment was in our processor and multimedia engineering teams to take advantage of the opportunities for new ARM technology in servers, computing and 3D graphics.

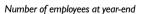
As a result of this investment, normalised expenditure on research and development rose to £148 million in 2013, representing 21% of revenues and 11% growth year-on-year. Expenditure on research and development under IFRS accounting was £203 million, representing 28% of revenues and 22% growth year-on-year.

ARM also invests in the infrastructure our engineers need to develop and test complex technology. In 2013 we started work on a new data centre in Austin, which will host some of our development tools and test software.

The future opportunity

ARM expects to continue to invest in its employees as we develop our engineering capability and operational execution.

As ARM technology is designed into more end markets, we expect the business to become more profitable.





ARM'S FINANCIAL
DISCIPLINE FOCUSES
INVESTMENT IN
AREAS OF MAXIMUM
OPPORTUNITY SUCH
AS THE RECRUITMENT
OF MORE ENGINEERS
TO DEVELOP THE
NEXT GENERATION
OF TECHNOLOGY.

KPI

GROWING NORMALISED OPERATING MARGINS, EPS, CASH GENERATION AND DIVIDENDS

ARM's business model and its exposure to structural growth markets means that ARM is well positioned to grow its profitability, to generate cash and to support a growing dividend. ARM intends to cover most of its operational costs from the licence revenues of each new technology. This leaves the majority of royalty revenue as profits.

ARM's financial discipline focuses investment in areas of maximum opportunity such as the recruitment of more engineers to develop the next generation of technology. As our customers include the world's largest semiconductor companies, their regular royalty payments have become a reliable cash flow. Given our broad base of Partners and end markets, ARM is not overly reliant on any one company or consumer product for its future profits and cash.

During 2013, ARM generated £344.5 million of cash, up 29% over the prior year. The increase in cash generation is primarily due to the increase in revenue. Since 2004, ARM has returned £565 million of cash to shareholders through a combination of share buybacks and dividends. In 2013 ARM increased the dividend by 27% to 5.7 pence.

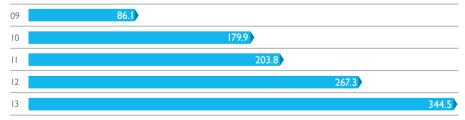
The future opportunity

As royalty revenues become a greater proportion of ARM's overall revenues, ARM's profitability and cash generation is expected to increase.

Operating margin (%)



Normalised net cash generation*** (£m)



- * Including exceptional items of £101.3 million.
- ** Normalised figures are based on IFRS, adjusted for acquisition-related charges and charges relating to amortisation of intangible assets (other than goodwill) that have arisen on acquisitions, share-based payment costs, profit or loss on disposal and impairment of available-for-sale investments, restructuring charges, share of results in joint venture, Linaro™-related charges and exceptional charges.
- *** Normalised net cash generation is defined as movement on cash, cash equivalents, short-term and long-term deposits, adding back dividend payments, investment and acquisition consideration, other acquisition-related payments, share-based payroll taxes, payments to joint venture and Linaro, advance payment to the MIPS patent consortium and payments for IP indemnity and similar charges, and deducting inflows from share option exercises.



7.4p

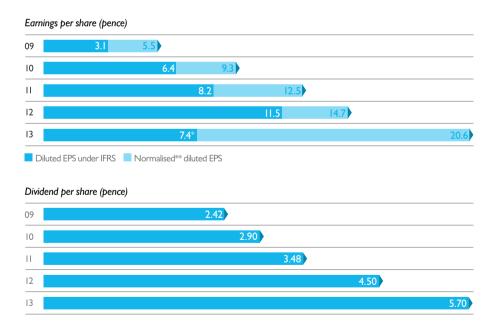
Includes exceptional items of £101 million.



Includes exceptional items of £101 million.

Full Year Dividend

5.7p





MOBILE COMPUTING

BETTER MOBILE EXPERIENCES



JAMES BRUCE
Director of Mobile Solutions

James has led ARM's Mobile Segment Marketing team since 2013. He and his team maintain relationships throughout the mobile value chain, including influential handset OEMs, network operators and major software developers for mobile devices.

Smart mobile devices are making the world a more connected place. Smartphones and tablets are becoming more affordable, and wireless high-speed networks are covering the majority of the global population, connecting us all to each other, to our lives at work, school and play, and to our digital lives. This is enabling innovation as entrepreneurs create new products and services, new ways of working and new business models. The mobile revolution is connecting a changing world.

Smartphones and new mobile computing devices are creating opportunities for innovators and entrepreneurs

In many developed countries the penetration rate of smartphones and mobile computers is already very high, and replacement rates are typically 2–4 years. In many fast-growing and emerging economies the smartphone penetration rate is much lower and growing rapidly. 2013 was the first year that smartphones outsold feature phones, and there are now over 2 billion people using smart mobile devices.

Many of the next billion people to connect to the internet will live in Asia. Already entry-level smartphones, which includes all smartphones costing less than \$150 without subsidy, have reached price points as low as \$35, and tablets can be purchased for less than \$50. Over the next five years, it is estimated that entry-level smartphones will grow at about a 20% CAGR with over one billion forecast to be sold in 2018. Lower cost handsets require lower cost components, so ARM has developed very small processors that balance the need for capability with cost.

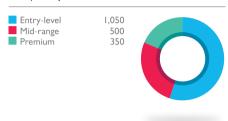
Mid-range smartphones are also forecast to grow rapidly with a cumulative total of two billion devices sold over the next five years. A mid-range smartphone needs to have the same functionality as the most advanced devices launched 1-2 years previously. Premium mobile devices are still forecast to grow at about a 5% CAGR, and will still make up about 20% of the market in 2018. Here competition will be based on the most advanced technology, giving consumers amazing experiences with new features and capabilities.

To meet the needs of such a diverse market, ARM has developed a family of processors and graphics technology that provides different levels of capability and performance, whilst minimising size which reduces chip cost and improves battery life.

ARM's Cortex-A family of processors is used in almost every smartphone and tablet computer. This includes the tiny Cortex-A5, which is used in some Android phones and provides sufficient computing for entry-level smartphones costing as little as \$35. In premium mobile computers you may find a high-performance Cortex-A15 processor, which provides a complete computing experience in products such as the Samsung Galaxy Note 3 and the HP Chromebook.

Entry-level smartphones, costing less than \$150, are expected to grow to over half the market by 2018.

Mix of smartphones in 2018



Source: Gartner, January 2014, and ARM forecasts

IN 2013 WE SAW
THE FIRST MOBILE
COMPUTING
DEVICES BASED
ON ARM'S NEXT
GENERATION ARM'8
ARCHITECTURE.
THIS INTRODUCES
EVEN BETTER HIGHPERFORMANCE AND
POWER EFFICIENCY.





Yulong Coolpad 7231 entry-level smartphone

In 2013 we saw the first mobile computing devices based on ARM's next generation ARMv8 architecture. This introduces even higher performance and greater powerefficiency, as well as adding faster multimedia and improved security. We also saw the first consumer products based on ARM's new big. LITTLE technology. In a big.LITTLE system we have combined a "big" high-performance processor with our most power-efficient "LITTLE" processor. By ensuring that each task or application is run on the correct processor, devices can deliver both improved performance and even lower power. In time we think that many smartphones and mobile computers will adopt both big.LITTLE technology and ARMv8-based processors.

ARM's Mali graphics and physical IP is also being used in many mobile computing devices. Semiconductor companies in China already use Mali graphics processors in about 75% of their chips for mobile devices. Beyond China, both Mediatek and Samsung announced that they were using Mali graphics in their chips for high-end mobile applications.

As with ARM's processor, Mali offers a range of scalable solutions that are being used in \$35 smartphones all the way to \$500+ smartphones and tablets. Many of the companies that license a Cortex-A class processor also use our physical IP technology to help create the most efficient implementation, and so get the most out of their processor investment.

The increasing penetration of smartphones and tablets is creating new opportunities for innovators and entrepreneurs. Other devices can now be connected and controlled via a smartphone. A fitness application such as the Fitbit or Pebble smart watch can connect to the internet via a smartphone. We can use our tablets to control the thermostat in rooms throughout the house, and check the performance of solar panels on the roof, even when travelling home. New businesses and business models are being created to offer us information whenever we need it. Streetline directs car drivers to the locations of available parking spaces across a city. Farmers and fishermen can get local market information to get the best price for their produce, which is especially useful in rural or developing regions. Smartphones and tablets are helping us effortlessly to connect and control the digital world around us.

The opportunities are huge, especially when mobile technology is combined with smart sensors embedded into the fabric of the world around us, creating an "Internet of Things". These new businesses and business models will generate jobs and wealth, helping to make the world a more creative and productive place.

Mobile computing via smartphone and tablet is helping to connect everybody and everything together, which is generating new opportunities for businesses all over the world. ARM's broad range of high-performance and low-power technologies will provide a common platform for much of this innovation.

ENTERPRISE INFRASTRUCTURE

INCREASING EFFICIENCY IN NETWORK INFRASTRUCTURE AND DATA CENTRES



The growth of smart devices and the desire for users to access information anywhere at any time is increasing the amount and richness of content that is transmitted, processed and stored. Over the next five years we estimate a 12-fold increase in mobile data traffic.

CHARLENE MARINIVice President of Embedded Segments

Charlene joined ARM in 2004 and has held multiple marketing roles in the Group. Today, Charlene leads a team that is focused on enabling the ARM partnership and ecosystem across multiple embedded verticals including networking, automotive, home, general embedded and the Internet of Things.

Increasing capability within the enterprise, without increasing energy use

When combined with the emergence of other intelligent devices (wearables computers and machine-to-machine communications) becoming connected to the network, we expect that the total amount of data transferred and stored will continue to grow.

An increase in data requires more networking capacity and more capable networking functionality across carriers, operators and enterprises. More data also requires more servers in data centres, especially cloudbased providers for storage and social networking sites.

If the technology used in current infrastructure were to remain the same, then an increase in capacity would require a similar increase in energy consumption. The electricity bill for carriers is already amongst their biggest costs. These companies are therefore not just looking for more performance but also improved energy efficiency.

ARM's Cortex-A9 was our first processor to offer the performance and sustained throughput to be suitable in networking equipment or servers. Platforms based on Cortex-A9 started shipping in 2012 and the momentum has continued with Cortex-A15 based devices that started shipping in 2013, demonstrating the performance, functionality and system reliability required for these markets. The arrival of chips based on the ARMv8 architecture broadens the use of ARM technology into even more enterprise applications.

Over the last few years, most of the major chip providers for enterprise networking and carrier equipment have announced ARM-based chips for this market, including Altera, Broadcom, Cavium, Freescale, IBM, HiSilicon, LSI. Texas Instruments and Xilinx. In February 2013 several leading carrier equipment providers announced ARM-based solutions for base stations including Huawei and Nokia Solutions Networks. In 2013 ARM's market share in carrier and enterprise networking was 5%, with two companies shipping in high volume. However, based on design wins and the plans of OEMs to ramp production of low-power equipment over the next few years, we estimate that ARM's share in 2018 will be in the range of 25-35%, as outlined opposite.

15

LICENCES SIGNED BY ARM FOR ENTERPRISE NETWORKING AND SERVERS IN 2013.



Several leading OEMs who develop servers, have already announced that they are working on ARM-based servers including Dell and HP.

2018 opportunity	Chip TAM (m)	Chip value (\$bn)	Target penetration
Mobile Infrastructure	80	\$4.5	60%
Wireline Infrastructure	60	\$2.5	30%
Corporate Networks	940	\$6.0	30%
Cable/ Broadband/ WLAN	260	\$2.0	30%
Other	60	\$3.0	20%
Total	1,400	\$18	25-35%

ARM-based chips for the server market are also in development. ARM and its Partners are initially focusing on companies with hyperscale deployments where the server is a critical business asset. For companies providing cloud infrastructure as a service and web services, the server can be both a revenue driver and a major source of costs. For many social networking sites, the server is just a cost; they make their revenues through advertising or other means. For both types of companies reducing the cost of owning a server is key to improving their profitability. As some of the servers within these companies have become dedicated to smaller set of workloads, it has enabled opportunities for semiconductor companies to develop workload-specific chips.

By identifying a specific server workload, it is possible to integrate many of the companion chips into a single chip, creating a System-on-Chip (SoC) design. Replacing data transfers between different chips to transfers within an integrated chip and adding designed-for-purpose hardware functions dramatically reduces power consumption and equipment footprint. In some applications more than 90% of the energy can be saved. For the companies ARM is targeting, this approach delivers savings in terms of acquisition and running costs.

During 2013, Applied Micro Circuits Corporation announced that it had manufactured the first ARMv8 architecture-based chip for servers, and Advanced Micro Devices and Cavium, Inc. announced that they would have ARMv8-based chips in 2014. Baidu, Inc., a leading Chinese web services company, announced that they were deploying the first ARM-based storage server in their data centre, and that the low-energy chips would enable higher storage density and reduce their total running costs by 25%.

For ARM technology to gain share in the server market some critical software needs to be ported to support the ARM architecture. In several segments many of the applications run on Linux, or Java which ARM and its partners have already optimised. As ARM-based chips become available, other software applications will be ported and optimised. Several leading OEMs who develop servers have already announced that they are working on ARM-based servers, including Dell and HP.

This development will enable ARM Partners to start to gain share in 2014, and by 2018 we expect to have more than a 10% share of the server market.

EMBEDDED COMPUTING

EMBEDDING INTELLIGENCE EVERYWHERE



Many of the products and services we use every day are enabled by a small smart microcontroller or smart card. For example, the control panel and electric motor in a washing machine or lift controller, the remote control for a TV, and the chip in a passport or credit card.

GARY ATKINSONDirector of Emerging Technologies, ARM

Gary is based in Cambridge, UK and spends his time travelling the world looking for new technology that already has or may have a use for ARM-based processors in disruptive, globally scalable and impactful applications.

Embedded intelligence creating an Internet of Things

In 2013, approximately 19 billion smart microcontrollers were sold globally. As these chips are used in a wide range of end markets they are general-purpose controllers developed to be usable in all sorts of devices. They can be very low cost, and in 2013, the average selling price of a microcontroller was about \$1.

In 2013, there were about 3 billion ARM-based microcontrollers and smart embedded chips sold. Over the last five years much of the growth in the embedded market can be attributed to ARM-based chips.

Many ARM-based microcontrollers used an ARM Cortex-M class processor, and ARM has now signed over 200 licences for this technology, mainly for use in microcontrollers and the new generation of Internet of Things devices. ARM signed 47 licences for Cortex-M class processors in 2013.

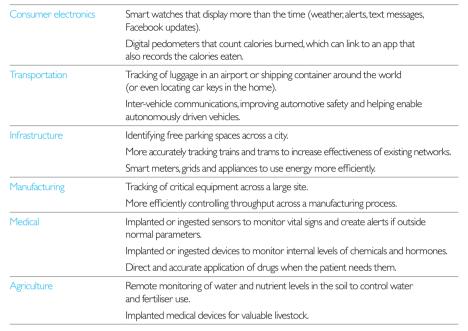
Connecting intelligence to create an Internet of Things

Smartphones and mobile devices are becoming the controller and the display for the digital world around us, which is creating opportunities for smart devices to connect and give us more information and more control than we have ever had before. ARM-based smart sensors and controllers are being integrated into a wide range of applications from consumer electronics, to manufacturing, transportation and agriculture.

The market for embedded computing is very large. In 2013 there were about 16 billion microcontrollers and smartcards sold. Estimates for 2020 vary considerably, with some between 30 to 50 billion network connected devices, most of them based on smart sensors.

In 2013

THE AVERAGE PRICE OF A MICROCONTROLLER WAS ABOUT \$1. THIS **COULD DECLINE AS VOLUMES INCREASE.**



Most Internet of Things devices will have an integrated SoC or package that contains a microcontroller, sensor(s), and wired or wireless connectivity. Integrating everything together into a single chip reduces costs and complexity. ARM is very well placed for the Internet of Things due to a high market share in both microcontrollers and connectivity chips, and also because ARM's designs help reduce the overall development cost.

Many of these smart embedded devices will be connected to a network wirelessly. For example, most digital pedometers and smart watches use Bluetooth to connect to a smartphone. ARM-based chips operate the protocol stack in more than 75% of wireless devices including established wireless standards such as Bluetooth, WiFi and emerging standards such as WiGIG and Zigbee.

The applications for Internet of Things are highly diverse. If every application had multiple chip suppliers it would lead to a fragmented market for software developers and system designers. However, all chips that use an ARM processor benefit from a common underlying architecture making software and software tools reusable regardless of application, which makes it easier and cheaper to develop Internet of Things devices for different end markets.

In 2013, ARM acquired Sensinode Oy based in Finland. The team from Sensinode is developing low-power protocol stacks necessary for wireless communications and control between remote tiny sensors and a hub that can collate data and manage the sensors. ARM believes that this technology will enable many new applications, and help accelerate the Internet of Things.

For embedded computing to achieve its potential to create an "Internet of Things" that numbers in the tens to hundreds of billions, the technology needs to get "out of the lab" and into the hands of designers to create smart wearables, industrial and civil engineering equipment suppliers to develop smarter infrastructure systems, medical specialists to invent smart devices to monitor our vital signs, and so on. Internet of Things systems need to become easy to innovate and deploy and manage. ARM and our Partners are working on making the Internet of Things building blocks that anyone can put together, and that can be taught at schools and colleges to help enable the next generation of digital entrepreneurs.

GOVERNANCE

GOVERNANCE AT ARM

ARM is committed to good corporate governance, corporate responsibility and the highest ethical standards. We believe that effective governance is an essential contributor to our sustained improvement in business performance. Operating with integrity in all we do is vital to maintain the trust of investors, customers, employees and other stakeholders. This requires leadership, ethical behaviour and collaboration throughout the organisation.

This year's annual report is formed by two documents, this Strategic Report and a Governance and Financial Report which contains biographies of the Board and details on the Remuneration and other committees. We believe that creating two documents delivers a concise and understandable summary, whilst also providing more detailed information for those that want it. Both documents can be downloaded from www.arm.com/reporting2013 where you can also download a copy of our detailed Corporate Responsibility report.

The Board nurtures a working environment, throughout the organisation, where the highest standards of behaviour are established, demonstrated and maintained. This helps us to run the Group effectively and exercise judgement to manage the risks that we face to levels that are commensurate with the nature of our business. There are well-defined differences between the roles of 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.

The Board actively considers long-term strategy; monitors, challenges and supports the work of the Executive Committee; and is responsible for Board and executive management succession. The Board has ultimate responsibility for the Group's performance and for overseeing the management of risk. 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. These standards are enshrined in ARM's values and in our approach to corporate governance which can be found in the Governance and Financial Report, starting on page 6.

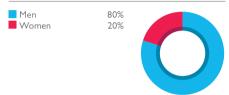
Risk and Risk Management

Under the guidance of Kathleen O'Donovan, who chairs the Audit Committee, during 2013 management reviewed and improved our risk assessment and reporting framework, with assistance from external advisers. We need to ensure that our processes are fit for purpose and the information that comes to the Board focuses on the principal risks and appropriately informs our ongoing risk appetite discussions.

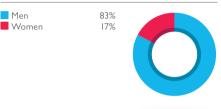
Our approach to risk management and principal risks are covered on pages 47 to 49 of this document.

Our Vision Our Performance **Our Commitment** Our Financial Report

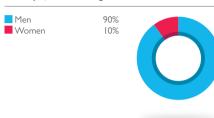
Diversity of the Board



Diversity of the Company



Diversity of Senior Managers*



*Staff with job grades 7–12 consisting of 136 of 2,833 employees.

Directors and succession planning

As part of our planned and continuing evolution of the Board, there were a number of changes in 2013 and there are some further changes planned in 2014.

- ► Simon Segars succeeded Warren East as Chief Executive Officer on 1 July 2013.
- ▶ Sir John Buchanan has requested that he step down as Chairman of ARM, due to a medical condition. Stuart Chambers joined the Board as Chairman designate on 27 January 2014 and will become Chairman on 1 March 2014. John will continue as an independent non-executive director until the AGM on 1 May 2014 and then retire from the Board.
- ▶ Mike Inglis retired from the Board on 31 March 2013.
- ► Eric Meurice joined the Board on I July 2013.
- Philip Rowley retires from the Board in May 2014, following his nine years' service.

Board biographies and changes are covered in detail in the Governance and Financial Report, starting on page 4.

Reference

See Risk management and principal risks in this Strategic Report.

For more on ARM values see the CEO Vision in this Strategic Report.

Employee engagement

ARM is a semiconductor IP company and the success of our R&D and our relationships with our customers are dependent upon the continuing efforts of our employees. We need our employees to be engaged across the organisation. It is therefore vital that all levels of staff are consulted and involved in decision making processes. To this end, internal conferences and communications meetings are held regularly which involve employees from all parts of the Group in discussions on future strategy and developments. Furthermore, employee share ownership is encouraged and all employees are able to participate in one of the Group's schemes to encourage share ownership.

Diversity

After the changes referred to above, the Board will comprise three executive directors, the Chairman and five non-executive directors. Within this there are eight men (80%) and two women (20%) which is broadly in line with the gender diversity of ARM's workforce as a whole.

Ethics and values

All directors and employees are required to act fairly, honestly and with integrity and to demonstrate that they have read and understand ARM's Code of Business Conduct and Ethics, a copy of which is published on the corporate website at www.arm.com. Our updated Human Rights Policy is now incorporated into our Code of Business Conduct and Ethics.

Corporate responsibility

Full details of our CR strategy and achievements can be found in the main CR report www.arm.com/reporting2013 and a summary of highlights from the year are included in the CR section of this Strategic Report.

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 other than during close periods. The main channel of communication is through the Chief Executive Officer, the Chief Financial Officer and the VP of Investor Relations. Contact details for the investor relations team can be found on the inside back cover of this report.

GOVERNANCE

REMUNERATION SUMMARY

Total directors' pay

In line with ARM's long-standing commitment to ethical values and culture, our aim is to ensure that remuneration policies and practices drive behaviours that are in the long-term interests of the Group and its shareholders. Pay for performance and no reward for failure continue to be key principles. At the same time, pay and benefits must be at a level that will attract, retain and motivate high-calibre people with the skills necessary to achieve our goal of sustained growth in corporate performance.

We operate in a global market, with the majority of our revenues being earned from companies located outside the UK and with more than half our employees being based outside the UK. The Group's continuing strong performance is due principally to the proven abilities of our executive team.

Director		Total amount of salary and fees £		All taxable benefits \mathcal{L}^*		Bonus þayment £*
Director	2013	2012	2013	2012	2013	2012
Executive						
Simon Segars****	400,000	280,000	73,186	93,284	543,454	370,605
Tim Score	415,000	400,000	26,031	25,178	599,374	529,436
Mike Muller	285,000	275,000	14,940	15,087	403,718	349,428
Warren East (retired 30 June 2013)	250,000	490,000	17,041	15,087	-	622,617
Mike Inglis (retired 31 March 2013)	71,250	280,000	11,293	14,692	-	355,78
Tudor Brown (retired 3 May 2012)	-	77,586	_	9,741	_	-
Total	1,421,250	1,802,586	142,491	173,069	1,546,546	2,227,867
Non-executive						
Sir John Buchanan (appointed 3 May 2012)	390,000	258,879	_	_	_	-
Andy Green	55,000	52,000	_	-	-	-
Larry Hirst	55,000	52,000	-	_	-	-
Eric Meurice (appointed 1 July 2013)	27,500	_	-	-	-	-
Kathleen O'Donovan	70,000	65,000	-	=	-	=
Janice Roberts	61,399	58,314	_	-	-	-
Philip Rowley	70,000	65,000	_	-	-	-
Doug Dunn (retired 3 May 2012)	_	62,069	_	-	-	-
Young Sohn (retired 31 December 2012)	_	59,906	_	_	_	-

*	All the executive directors receive family healthcare and annual travel insurance as part of their benefits in kind. In addition, Tim Score has the use of a company car with fuel benefit and
	Warren East, Tudor Brown, Mike Inglis and Mike Muller received a car and petrol allowance. Simon Segars receives living £61,283, transportation and other allowances as part of his
	placement in the US. Warren East, Mike Inglis and Tudor Brown received an additional cash allowance in place of Group pension contributions that can no longer be contributed in a
	tax-efficient way.

2,475,754

2,150,149

142,491

173,069

1,546,546

2,227,867

Total

^{**} The bonus payments above represent the full bonus earned during 2013. According to the terms of the DAB Plan, 50% of this bonus is not paid in cash, but is deferred and becomes payable in shares after three years. Details of the awards made in February 2012 in respect of these deferrals are detailed above.

^{***} These include gains made by Tudor Brown, Mike Inglis and Warren East on LTIP and DAB plans on their retirements.

^{****} For the first half of 2013, Simon Segars' salary was £300,000. Following his appointment to CEO on 1 July 2013, his salary increased to £500,000, resulting in an average for the year of £400,000.

Total £		All pension- related benefits £			Money and other a periods of more than
2012	2013	2012	2013	2012	2013
4,094,236	2,268,000	30,800	44,000	3,319,547	1,207,360
5,780,361	2,812,344	42,560	44,156	4,783,187	1,727,783
3,947,463	1,929,439	31,020	32,148	3,276,928	1,193,633
6,709,569	3,415,729	49,000	25,000	5,532,865	3,123,688
4,020,810	1,770,035	28,418	7,125	3,341,919	1,680,367
1,478,398	_	10,167	-	1,380,904	-
			150 100		
26,030,837	12,195,547	191,965	152,429	21,635,350	8,932,831
258,879	390,000	_	_	_	_
52,000	55,000	_	_	_	_
52,000	55,000				
32,000	27,500	_	_	_	_
65,000	70,000	_	_	_	_
58,314	61,399	_	_	_	_
65,000	70,000	_	_	_	_
62,069	-	_	_	_	_
59,906	_	_	_	=	_
21,122					
673,168	728,899	_	_	_	-
26,704,005	12,924,446	191,965	152,429	21,635,350	8,932,83 I





SUSTAINABILITY

DELIVERING A SOCIAL IMPACT: THROUGH OUR TECHNOLOGY, OUR COMPANY AND OUR PEOPLE

ARM technology now reaches around 75% of people in the world*, making our products amongst the most used, and useful, in the world. Now we are looking at how we can reach further, supporting projects where ARM technology and the ARM ecosystem can be transformative.

Our ambition is to address global challenges, achieve lasting impact and connect our charitable partnerships to our long-term business goals. Our approach is to:

- work on long-term, strategic partnerships with charities;
- use external expertise to define the areas of greatest potential;
- co-ordinate and drive collaboration between the projects we support;

Sustainability and Corporate Responsibility (CR) are an important part of ARM's business. Our products are focused on energy-efficiency and our business model is founded on partnership. We are one of a handful of companies whose technology reaches, from the billionaire to the subsistence farmer. Together, these factors add up to a great opportunity for ARM to achieve a positive global impact.

There are four principal areas to ARM's CR programme:

Our people across the world make the Company successful. Our Sustainability and CR activities help engage and support them around the broader benefits of ARM technology whilst providing volunteering opportunities that can really challenge their skills.

Responsible corporate behaviour starts with engagement and support from the most senior team. The Board sets the tone and receives an update on objectives and progress twice a year. The CR programme is then supported by processes, practices and individuals throughout the business.

We support innovative charitable projects that can help transform our future. These range from improving health or agriculture practices in developing economies to helping young children in the UK learn how to write computer code.

We want to help our local communities. We are committed to encouraging our staff to put their skills to the service of the community, and for ARM to provide support to help strengthen the fabric of the societies in which it operates.

Our people

ARM's success relies upon a motivated, innovative and highly skilled workforce working in an efficient, friendly working environment. Maintaining this is our aim. Treating everyone equally is an important part of our approach, so we provide the same benefits to everyone globally.

We encourage a culture of open and honest communication at all levels of the organisation. There are regular opportunities for employees to provide feedback such as the Global Employee Survey and our open door policy for discussions with the executive team.

Emphasis is placed on continuous learning and development. We use a blend of education, reflection, feedback and direct experience as well as formal and on-the-job training.

Our charity fundraising and volunteering programme, Team ARM, encourages teamwork and engagement with ARM's CR areas of interest and strategic charity partners.

We are investing more in Team ARM in 2014 to deliver a wider range of opportunities for employee engagement in everything from charity hackathons to mentoring young engineers.

ARM finished 2013 with 2,833 established employees, an increase of 18%, in 31 offices across 15 countries. Staff turnover dropped from 8.0% to 6.8%.

In 2013 we ran 38 internal conferences, bringing together a high percentage of our employees. We run a Global Graduate Conference and last year 88% of the year's graduate intake took part in the week, supported by 70 senior staff from across the business. Maintaining a global culture and unity of purpose is critical and we invest accordingly.

Our responsible behaviour

ARM's business model means that the impact of our operations on the environment, human rights issues and local communities is low. The scale and potential of our business ecosystem and technology to make a productive contribution to sustainability is high. We are committed to reducing any environmental impacts we have whilst maximising the beneficial aspects of our business model and products.

To help us understand where our risks, responsibilities and opportunities lie, ARM is a member of United Nations Global Compact (UNGC) LEAD. LEAD is a group of 53 multinationals working with the UN towards a more sustainable world by implementing their Blueprint for Corporate Sustainability Leadership. LEAD companies were chosen out of the 7,000 UNGC members because of their history of engagement with the UN and commitment to CR. ARM is represented on both the global LEAD and UK network's advisory boards, keeping us in touch with our peers and informing how we can contribute to sustainability in our immediate operations, our ecosystem and more broadly.

In 2013 we sponsored the creation of a UN Climate and Energy Action Hub to enable new business partnerships on environmental projects. The hub now has 43 organisations involved, working together to scale up climate and energy efforts. As part of the project, ARM is supporting research into the potential for smarter appliances to consume less energy and reduce peaks in power consumption.

Carbon reduction is an issue that affects everyone. Despite independent assessment of ARM as an environmentally low-impact business, ARM has taken part in the Carbon Disclosure Project (CDP) for the past three years. We have been using the CDP framework to help us improve the reporting and management of our carbon impacts. We achieved a 42% improvement on our 2012 score this year, placing us in Grade C.

We have made steady progress towards our corporate environmental goal for energy use and remain committed to our carbon emission reduction targets for a 30% reduction in intensity by headcount by 2020. At the end of 2013 we had achieved a reduction of 18%.

Our energy intensity based on kWh per employee has decreased by 19% globally based on our 2009 baseline. This has been achieved through our commitment to better energy performance from our buildings alongside improved utility of our estate.

Please refer to the Governance and Financial Report page 24 for methodology and further data.

Human rights

There is growing interest worldwide in the issue of the impact of business on human rights. Reflecting this, ARM has worked this year with Shift, a specialist non-profit organisation working on business and human rights, to understand more about this agenda and its key guidelines, the UN Guiding Principles on Business and Human Rights.

We are confident that our risk in this area is low, but no company can afford to be complacent. We have therefore adopted a general Human Rights Policy, in addition to related existing policies including those on conflict minerals, business ethics and discrimination. The new Policy underlines our commitment to avoiding adverse impact on human rights in the way we conduct our operations.

SUSTAINABILITY CONTINUED

THERE WERE SO MANY
THINGS WE DIDN'T KNOW
ABOUT RAISING HEALTHY
CHILDREN BUT DUE TO THE
TALKING BOOK, WE LISTEN
AND LEARN HEALTHY WAYS
TO RAISE OUR CHILDREN.

Nadowli Kuubataanono, traditional birth attendant in the Jirapa District, Ghana.

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Our support for innovation

ARM believes that business has an important role to play in charitable work and addressing global sustainability issues. It is expected that, following the 2015 Millennium Development Goals, the post 2015 United Nations "Sustainable Development Goals" will include the role of business as a key enabler. We believe that the technology sector has a great deal to offer.

When working with charities, companies are unencumbered by many of the constraints faced by charitable foundations and governments. We have an opportunity to bring charities and businesses together, looking at the bigger picture across multiple issue areas to develop new ideas that can deliver real benefits. Companies are able to take more risk and try out ideas that may not work; but this is a necessary part of research, development and entrepreneurship, subjects that are very close to ARM.

In the past year, ARM has helped launch some exciting new initiatives. In early 2013, ARM became the first major sponsor of Code Club, a non-profit organisation helping primary school children learn computer coding. ARM's early support, taking a leap of faith in the founders' vision, led to the expansion of the team from two part-time founders to four full-time and two part-time members of staff. We saw the potential for the idea to scale and supported the entrepreneurial spirit of the two co-founders.

ARM employees run 15 clubs and there are now a total of over 1,500 clubs across the UK supporting 22,000 children. At the time of writing, 100 new clubs are started each month and next year ARM will be helping Code Club deliver more regional support with a goal of reaching 25% of all primary schools by the end of 2015. We will also be working with the founders to help take the Code Club model worldwide, using ARM locations around the world to help start new Code Clubs.

Literacy Bridge uses "Talking Book" technology designed to provide those living in extreme poverty with education on health and agriculture that can reduce maternal and child mortality, hunger and chronic malnutrition. ARM has been working with Literacy Bridge to develop a long-term strategy aiming to empower the world's poorest families. In 2013, we partnered with UNICEF in Ghana on a major 18-month project that will allow Literacy Bridge to prove their model at a scale of 40,000+ people. This is a critical milestone as the majority of projects fail after the pilot stage.

UNICEF and ARM have delivered the funding for the maternal health component of the project. ARM suggested the inclusion of Literacy Bridge's prior work on agriculture, which was outside the remit of the UNICEF's project, and provided the additional support needed. This is an example of a company's freedom to look at the big picture, and across different issue areas, something that is challenging for sector-focused charities and donors.

Initial data suggests that educational information from Literacy Bridge can help people achieve a 48% increase in their crop yield. For a subsistence farmer this increase is life-changing. In a small health trial in Jirapa District, people adopted 90% of applicable health messages from the Talking Book.

In 2014, ARM will continue its support for Literacy Bridge, focusing on its R&D efforts to use ARM's Cortex M0 within a new chip that will deliver a significant reduction in manufacturing costs and power consumption of the technology.

Helping our local communities

ARM's approach to local community support is two-fold; to support activities that impact on our employees directly, and to help in areas of need that are often neglected. We work closely with local charities to advise us on where our support is most needed and can have the greatest impact.

ARM has been an active supporter of the community local to its Cambridge head office ever since its foundation. Now, as a global company, it is important that we are able to support our local communities in all of our locations.

We recognise that the needs of every community are different and so we build relationships at a local level and encourage each office to allocate support to local charities or community outreach projects. Our aim is to help strengthen the fabric of society in the communities around our offices.

ARM is now working with community leaders to understand the most pressing local needs, whether this is one-off emergency support or long-term help for the areas of greatest deprivation.

This is a programme that we will be focusing on in 2014. We are confident ARM can make as big a contribution to our local communities as we have in our strategic charitable partnerships.

There are more examples of our charitable partnerships, as well as data on all our material issues, in the full CR report. We have self-assessed the CR report at GRI level B and it can be found at www.arm.com/reporting2013.

Our Vision Our Performance **Our Commitment** Our Financial Report

RISK MANAGEMENT AND PRINCIPAL RISKS

IDENTIFYING AND MANAGING RISKS

ARM has a robust risk management process in place to identify key risks; assign ownership for each risk at a senior management level, identify both existing and planned management activities against each risk; assess the residual likelihood and impact of each risk; and to ensure ongoing monitoring and reporting of each key risk.

At a strategic level, our risk management objectives are to:

- identify ARM's most significant strategic and operational risks;
- develop plans to manage the risks identified, with a clear owner assigned to each risk;
- ensure that business growth plans are properly supported by an effective risk infrastructure;
- help executives improve the control and co-ordination of risk taking across the business; and
- ensure ARM's assurance activities are focused on the organisation's key risks.

Strategic risks are managed through a number of regular forums where key risks are discussed and existing management activities challenged. These include regular sessions with both the Holdings Board and the senior management.

Operational risks are managed in accordance with the ARM Management System (AMS), which defines key policies and processes across the organisation. ARM has a number of sources in place to provide assurance over compliance with the AMS.

Risk review process

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, the operational response and management activities including sources of assurance and the residual likelihood and impact.

Risks are identified through senior management discussion (top-down) and regular reporting from every part of the business (bottom-up). Relevant risks are entered onto the CRR and given an owner at senior management level. ARM's ongoing operations and internal controls may mitigate the likelihood and/or the impact of the risk. The residual likelihood and impact of the risk is assessed to identify any further mitigating activities that may be required.

The CRR is monitored by the Risk Review Committee, chaired by Mike Muller, Chief Technology Officer. The Risk Review Committee meets on a quarterly basis to review the CRR. Each risk owner is required to review and demonstrate that risks are being appropriately managed. A more detailed explanation of the Risk Review Committee's activities is included in the Governance and Financial Report on pages 19 to 20. The Audit Committee is responsible for overseeing the risk management framework and ensuring that the risk management process is operating effectively. The Executive Committee and the Board review the CRR on a regular basis.

Internal audit assurance

ARM's internal audit function develops an annual internal audit plan designed to provide assurance that the management activities for the key risks identified are designed and operating effectively.

RISK MANAGEMENT AND PRINCIPAL RISKS CONTINUED

ARM's principal risks and uncertainties are outlined below

I. A change in the industry business dynamic may lead to loss of market share and/or reduction in value of IP

We work in the highly competitive and fast moving semiconductor industry. Many of the other companies within this industry are well resourced and may consider processor and physical IP as attractive markets for them to enter with competitive products. Start-up and open source technology initiatives could develop competing or alternative ways for companies to design their chips. The cost of developing software in many end market applications is increasing, which may also result in new technologies that might not suit ARM's current product portfolio or skill set. We may not be able to adapt to these changes, resulting in a loss of market share.

Mitigation

At the end of 2013 ARM had approximately 350 Partners, and over 1,000 companies in the ARM Connected Community. These companies depend on ARM technology for part of their business, and we meet with thought leaders within our industry and related sectors to discuss their business context and strategy. ARM is well positioned to detect any change within the semiconductor industry, and react accordingly. ARM's management team reviews our strategy and our long-term product development plans to test that we are developing the technology to meet the future needs of the industry.

See pages 14–17 for an overview of the industry and ARM's market position.

2. A competitor's product or technology may lead to loss of market share

ARM faces competition both from large semiconductor companies and from smaller IP companies. Intel is developing x86-based processors for use in PCs and servers, and is looking to deploy these chips in markets such as tablets, mobile phones and embedded markets, including the Internet of Things. There are many small semiconductor IP companies competing with ARM, especially in emerging markets where there are lower barriers to entry. Any success by our competition would result in a reduction in royalty revenue to ARM.

Mitigation

ARM works closely with leading semiconductor companies who together have a long history of developing cost-efficient, low-power chips. Together we have created a highly competitive market and OEMs have enjoyed a wide choice of chips at different capabilities and pricing.

ARM's established ecosystem includes many software and chip design engineers who understand how to build ARM-based chips and write software optimised for ARM processors. ARM has enabled thousands of companies to offer products that are compatible with and support other ARM-based technologies, reducing the complexity and cost of developing an SOC or product around an ARM processor. ARM invests in this ecosystem to help further reduce the total cost of developing and maintaining a portfolio of ARM-based chips.

3. ARM may face challenges managing its business in new geographic markets

Chinese semiconductor companies have become responsible for an increasingly significant proportion of ARM's revenues, and we expect that proportion to continue to grow. India has had a strong semiconductor presence for many years, although revenues from that region are smaller. ARM has little knowledge and experience of the markets in Russia, South America and Africa, which have different political cultures to the markets we are established in. In all these regions local governments are supporting and funding local technology companies, which could give rise to new competitors and new markets.

Mitigation

ARM has had offices in both China and India for many years, and 19% of our workforce is split between these two countries. We have regional development offices to support the other regions, and combined with regular visits by management, we track opportunities and meet local decision makers.

See page 18 for a global overview of ARM's business.

4. We could suffer significant damage to our brand and reputation

ARM's technology is used in billions of consumer and enterprise products, many of which are depended on by individuals and businesses, and are used to store, manage or transmit huge amounts of personal, confidential or proprietary information. A fault or bug associated with one of ARM's products could damage ARM's corporate reputation and lead to a loss of brand value.

Mitigation

ARM has rigorous quality assurance, and verification and validation processes to reduce the risk of faults or bugs. ARM regularly gathers feedback from its customers and Partners to determine whether the perception of ARM is changing, and that corrective action can be taken early if customers are becoming less satisfied with our products or behaviour.

5. ARM's technology may not meet customer requirements in the future

The technology industry is characterised by rapid change, as new innovation continually improves the way that chipsets are designed and manufactured, and how they are deployed by OEMs and used by consumers. A change in the end market that does not favour ARM or our business model could occur, requiring ARM to either change its investment approach or risk losing share. Either way, ARM could become less profitable in the future as a result of such a market change.

Mitigation

ARM has well-established product specification and development processes, and we work with thought leaders within various industries to ensure our technology is suitable for next generation digital products. We spend some of our R&D budget on longer term programmes to investigate how new scientific developments might impact the industry, and how technologies in adjacent markets might impact ARM and our ecosystem.

6. ARM's current people, processes and/or infrastructure may not be adequately scalable to meet our growth ambitions

We have grown our headcount rapidly over the last few years, as we have hired more engineers to develop the next generation of processors and the supporting technology our customers need. If this growth rate continues we may find our existing organisational structure, culture and infrastructure cannot be adapted to meet the greater number of staff.

Mitigation

Our multi-year planning process includes product development reviews alongside long-term investment plans for recruitment, training, facilities and IT. We also hold regular surveys of employees to measure job satisfaction and engagement levels across the organisation, and in sufficient detail to identify early problems with specific teams, locations or departments.

See pages 32 to 37 for an overview of ARM's main markets.

7. ARM may have to defend itself against third-parties who claim that we have infringed their proprietary rights

Whilst we take great care to establish and maintain the integrity of our products, we may have to protect our intellectual property or defend our technology against claims that we have infringed others' proprietary rights.

From time to time, third-parties, including our competitors, may assert patent, copyright and other intellectual property rights to technologies that are important to our business. Any infringement claim brought against us or our Partners, could result in substantial costs and divert management's attention.

Any assertion of intellectual property rights by a third-party against our technology could result in our licensees becoming the target of litigation and we may be bound to indemnify such licensees under the terms of our licence agreements.

Mitigation

We focus on designing and implementing our products without the use of intellectual property belonging to third-parties, except under strictly maintained procedures and with the benefit of appropriate licence rights. In the event that a third-party successfully proves that it has intellectual property rights covering a product that we have licensed to customers, we will take steps to either purchase a licence to use the relevant technology or work around the technology by developing our own solution so as to avoid infringement of that third-party's intellectual property rights.

From time to time ARM enters into cross-licensing agreements and non-assert agreements with leading technology companies. In 2013, ARM was part of a consortium of companies that acquired rights to the patent portfolio of MIPS Technologies Inc., which removes the potential risk of future litigation from those patents. In early 2014, ARM acquired the patent portfolio outright.

See page 55 on the financial impact of ARM acquiring the patent portfolio of MIPS.

8. Significant concentration in our customer base may increase the risk to ARM's growth ambitions

Changes in technology trends and/or economic conditions may cause companies within the semiconductor industry to consolidate further, thereby reducing the number of customers that ARM may sell its technology to and potentially making ARM more dependent on a smaller number of customers. Any change to the product plans of a major customer may have an impact on the technology that ARM was developing, and so result in both additional costs, and a delay in revenues.

Mitigation

We have licensed our processor technology to approximately 350 Partners, about half of which are now paying royalty revenues. Much of our royalty and licence revenues are generated by the top 20 semiconductor companies. ARM typically develops 2–3 new processors each year, reducing the impact of a customer asking us to change the specification of a product.

9. Assumptions that fundamentally underpin ARM's valuation may be undermined, leading to a sudden depreciation of share price

ARM's valuation is based on the financial markets' view of our growth opportunity and the value of ARM's assets. Revisions to assessments of our future markets could impact estimated cash flows. Changes to assumptions about the value of ARM's assets, including goodwill, could lead to the impairment of certain of ARM's assets.

Mitigation

At least once every year, we present to the financial markets the latest forecasts on the growth of the semiconductor industry and ARM's view of our opportunity to win share within that market.



MADE TO MEASURE



3D printers, and other advanced manufacturing techniques, are enabling the creation of bespoke, solid and usable 3D objects. This reinvention of manufacturing is enabling new types of products and prototypes to be efficiently created. 3D printers need smart electronics to control them, and ARM-based chips are an ideal choice.

FINANCIAL REPORT

OUR FINANCIAL STRATEGY

This review discusses the Group's results against our key financial performance indicators and provides an overview of our financial strategy, including how we intend to grow shareholder returns over the medium term and our approach to treasury and tax planning.

ARM's goals are to build a business that will grow revenues over an extended period and balance increasing investment in product development with growth in earnings and cash generation. In 2013, we achieved these objectives once again, further strengthening the platform for future growth.

Figures referred to as "normalised" in this narrative, exclude charges relating to amortisation of intangible assets (other than goodwill) that have arisen on acquisitions; share-based payment charges relating to the issuance of ARM share-based remuneration to employees of the Group; acquisitionrelated charges; Linaro-related charges; ARM's share of the results in joint venture; changes in the value of and profit on disposal of available-for-sale investments; and exceptional items. Reconciliations of normalised costs and expenses to IFRS costs and expenses are shown in tables accompanying this narrative. We believe that normalised figures allow for clearer comparisons of performance from year to year, and enable users of the accounts to better assess the underlying financial performance of the Group.

Selected financial data/IFRS

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Revenues	714.6	576.9	491.8	406.6	305.0
Cost of revenues	(39.3)	(31.9)	(27.7)	(26.1)	(25.5)
Gross profit	675.3	545.0	464.1	380.5	279.5
Total operating expenses before exceptional items	(420.5)	(336.9)	(315.2)	(273.5)	(233.9)
Exceptional items	(101.3)	-	-	_	-
Total operating expenses after exceptional items	(521.8)	(336.9)	(315.2)	(273.5)	(233.9)
Profit from operations	153.5	208.1	148.9	107.0	45.6
Operating margin	21.5%	36.1%	30.3%	26.3%	15.0%
Investment income, net	13.1	13.6	8.0	3.1	1.6
Share of results in joint venture	(4.0)	(0.7)	_	_	_
Profit before tax	162.6	221.0	156.9	110.1	47.2
Tax	(57.8)	(60.3)	(44.3)	(24.1)	(6.8)
Profit for the year	104.8	160.7	112.6	86.0	40.4
Dividends paid	68.9	51.8	42.2	34.3	29.0
Capital expenditure	17.0	33.2	13.0	7.4	6.9
Research and development expenditure	202.9	166.3	165.4	139.7	112.2
Cash, short- and long-term deposits	713.5	527.6	429.0	291.8	141.8
Shareholders' funds	1,311.4	1,206.1	1,061.2	894.9	738.7
Employees at end of year (number)	2,833	2,392	2,116	1,889	1,710

Our Vision Our Performance Our Commitment Our Financial Report

Normalised costs and expenses reconciled to IFRS costs and expenses

	Normalised £m	Share-based payments £m	Intangible amortisation and acquisition- related charges £m	Impairment of investments net of profit on disposals £m	Exceptional items £m	Linaro-related charges £m	IFRS £m
2013							
Cost of revenues	37.2	2.1	_	-	_	_	39.3
Research and development expenses	148.3	45.1	9.5	-	-	-	202.9
Sales and marketing expenses	76.7	12.1	0.6	-	_	_	89.4
General and administrative expenses	101.5	14.7	1.5	3.5	_	7.0	128.2
Total operating expenses before exceptional items	326.5	71.9	11.6	3.5	_	7.0	420.5
Exceptional items	-	_	_	-	101.3	_	101.3
Total operating expenses after exceptional items	326.5	71.9	11.6	3.5	101.3	7.0	521.8
2012							
Cost of revenues	29.8	2.1	_	_	_	_	31.9
Research and development expenses	134.0	25.8	6.5	_	_	_	166.3
Sales and marketing expenses	64.3	7.7	0.9	_	_	_	72.9
General and administrative expenses	85.9	9.8	1.4	0.6	_	-	97.7
Total net operating expenses	284.2	43.3	8.8	0.6	_	-	336.9

Growing revenues

During 2013, ARM achieved record dollar revenues of \$1,117.7 million, an increase of 22% over the previous year. 2013 sterling revenues of £714.6 million were up 24% year-on-year.

Licensing revenues reached new highs as more semiconductor companies chose to deploy ARM technology in their chips. During the year we signed 121 licences with 72 semiconductor companies, with 30 companies acquiring their first-ever ARM processor licence. Total dollar licensing revenues in 2013 were \$447.9 million, up 32% year-on-year.

Since 2009, dollar licensing revenues have grown at a compound annual growth rate (CAGR) of 29%. This growth rate has been driven by ARM technology becoming suitable for a wider range of end markets, which has enabled existing customers to take ARM technology into new areas and encouraged new customers to select an ARM processor for their chip. We expect that ARM's licensing revenue will continue to grow, albeit at a more moderate rate, over the medium term.

We also saw record royalty revenues in 2013, generated from the sale of more than 10 billion ARM-based chips. Since 2009, dollar royalty revenues have grown at a CAGR of 23%, outperforming the semiconductor industry by 10-20% per annum. We expect our growth will continue to outpace the semiconductor industry, driven by market share gains and the trend for modern devices to use highervalue ARM technology. In particular, we see opportunities coming from the continued adoption of smartphones around the world; growth in mobile computing; the deployment of ARM processors in servers and enterprise networking equipment; and the emergence of the Internet of Things.

A comparison of revenues by revenue stream between 2013 and 2012 is shown in note 2 to the financial statements.

Delivering efficiency

To underpin growth in our revenues, we will continue to expand our employee base through increased investment in research and development, sales and marketing, and our business infrastructure. Over the years, ARM's revenues have grown more quickly than

costs, giving rise to an increase in normalised operating margin from 31.2% in 2009 to 49.1% in 2013. Over the same period, IFRS operating margin rose from 15.0% to 21.5%.

Developing new technology

As semiconductor technology becomes more complex, the cost of designing chips and microprocessors increases. This trend benefits ARM in that it encourages our customers to outsource some of their technology needs; it also means that each generation of ARM technology requires more development effort than the last. At 31 December 2013, ARM employed 1,961 engineers, a 19% increase in the year (2012: 1,652). This represented 69% of ARM's total employees (2012: 69%). Normalised research and development expenditure in 2013 was £148.3 million (IFRS: £202.9 million), compared with £134.0 million in 2012 (IFRS: £166.3 million), with the increase reflecting our ongoing investment in new technology development.

In the year to 31 December 2013, ARM filed 210 patent applications worldwide, bringing the total number of patents owned by ARM to approximately 3,500.

FINANCIAL REPORT CONTINUED

This includes approximately 500 patents acquired from MIPS Technologies, Inc in January 2014.

Nurturing the ecosystem

To ensure that ARM's products offer an attractive value proposition to our Partners. we are in continuous dialogue with semiconductor companies and OEMs. As part of this dialogue, we provide technical support to our licensees and promote awareness of our long-term product development roadmap. In October 2013, ARM held its annual technology conference, where 5,000 engineers and developers, from across the ARM Partnership, came together to learn about ARM's roadmap and to share their knowledge and experience of using ARM technology, whilst discussing their plans for developing future ARM-based products. This included companies such as semiconductor designers and manufacturers, OEMs and equipment developers, software and hardware tools vendors, and software and training providers. In the year to 31 December 2013, ARM's normalised sales and marketing spend was £76.7 million (IFRS: £89.4 million), compared with £64.3 million in 2012 (IFRS: £72.9 million). The year-on-year increase reflects the increased investment in customer support and marketing activities.

The following table shows non-GAAP measures used in this report; including reconciliations from the IFRS measures. They exclude acquisition-related charges; share-based payment costs and related payroll taxes; restructuring charges; profit on disposal and impairment of available-for-sale investments; share of results in joint venture; Linaro-related costs; and exceptional items.

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Profit from operations (per income statement)	153.5	208.1	148.9	107.0	45.6
Intangible amortisation and acquisition-related charges	11.6	8.8	6.4	11.4	16.2
Share-based payment costs and related payroll taxes	74.0	45.4	57.7	41.9	24.7
Restructuring charges	-	_	_	(0.4)	8.4
Profit/loss on sale/impairment of investments	3.5	0.6	1.8	_	0.2
Linaro-related charges	7.0	_	6.9	4.4	-
Exceptional items	101.3	_	_	_	-
Normalised profit from operations	350.9	262.9	221.7	164.3	95.1
Normalised operating margin	49.1%	45.6%	45.1%	40.4%	31.2%
Investment income, net	13.1	13.6	8.0	3.1	1.6
Normalised profit before tax	364.0	276.5	229.7	167.4	96.7
Tax (per IFRS income statement)	(57.8)	(60.3)	(44.3)	(24.1)	(6.8)
Tax impact of above charges	(15.6)	(11.0)	(14.2)	(17.0)	(19.1)
Normalised profit after tax	290.6	205.2	171.2	126.3	70.8
Normalised diluted EPS (pence)	20.59	14.70	12.45	9.34	5.45
IFRS diluted EPS (pence)	7.43	11.51	8.19	6.36	3.11

Supporting our growth

ARM continues to invest in our finance, IT, HR and legal teams to ensure that we have a robust infrastructure to support growth. In the year to 31 December 2013, ARM's normalised general and administrative costs were £101.5 million (IFRS: £128.2 million), compared with £85.9 million in 2012 (IFRS: £97.7 million). As well as increasing our research and development capacity, we invested in our teams that support the deployment of ARM's technology and in the development of the organisation.

Paying our taxes

ARM's tax strategy is to enhance shareholder value by minimising its tax liabilities through the use of legitimate tax exemptions and tax reliefs. Many governments encourage innovation by offering tax incentives to companies that develop new technologies.

ARM is committed to paying the correct taxes in each relevant jurisdiction and follows a policy of full disclosure in its dealings with the tax authorities worldwide. The Board has oversight of ARM's tax strategy and regularly reviews key developments that may influence the Group's global tax position.

A large proportion of ARM's products are developed in the UK, where the government offers credits to companies with R&D commitments. In April 2013, the UK government provided further incentive for companies to invest in the UK with the introduction of the Patent Box tax legislation, which allows companies to apply for a lower rate of Corporation Tax on profits earned from patented technologies. The lower rate of tax is being phased-in between April 2013 and April 2017.

ARM also develops technology in the US and France, where the respective governments also offer R&D tax credits. In 2013, ARM's normalised effective tax rate was 20.2% (IFRS: 35.5%), which reflects the benefit of the Patent Box legislation and other R&D credits.

ARM's normalised profit before tax in 2013 was £364.0 million (IFRS: £162.6 million). ARM's total tax contribution worldwide in 2013 amounted to £162.5 million (2012: £152.4 million), of which £133.8 million (2012: £121.7 million) related to tax collected on behalf of the tax authorities for employee payroll taxes; £23.3 million (2012: £26.1 million) related to corporation taxes; £1.7 million (2012: £1.3 million) to property taxes; and £3.7 million (2012: £3.3 million) related to other taxes.

Managing our financial assets

ARM's business model is highly cash generative. Between 2009 and 2013, ARM paid out £226.2 million in dividends and our normalised net cash balance grew from £141.8 million at the end of 2009 to £706.3 million at the end of 2013.

Dividends

The directors are recommending payment of a final dividend in respect of 2013 of 3.6 pence per share which, taken together with the interim dividend of 2.1 pence per share paid in October 2013, gives a total dividend in respect of 2013 of 5.7 pence per share, an increase of 27% over 4.5 pence per share in 2012. The total cash outflow from dividends paid in 2013 amounted to £68.9 million (2012: £51.8 million).

Since 2009, our dividend has grown at a CAGR of 24%. In 2013, the recommended dividend per share was equal to 28% of our normalised diluted earnings per share (77% of IFRS diluted earnings per share).

Subject to shareholder approval, the final dividend for 2013 will be paid on 16 May 2014 to shareholders on the register on 22 April 2014.

Share buybacks

Between 2005 and 2008, the Company bought back 213 million shares (being 16% of issued share capital) at a total cost of £261 million. No share buybacks have been undertaken since 2008. The rolling authority to buy back shares given by the shareholders at the 2013 AGM remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2014 AGM.

At 1.4 billion shares, the total share count is similar to the level outstanding at the commencement of the 2005 to 2008 rolling share buyback programme. It is our intention to continue to maintain a flat share count over time by offsetting dilution from share-based remuneration with further share buybacks.

Acquisition strategy

The rapid pace of technological change in the semiconductor industry presents opportunities for ARM to apply its business model to new products or into new markets. On occasion, ARM has identified a strategic opportunity to buy-in IP rather than developing it internally. Such opportunities can take the form of an acquisition, an investment in a start-up company, or the acquisition or licensing of third-party patents.

In 2013, ARM spent a total of £21.1 million on two acquisitions (2012: £nil): Sensinode, a Finnish company with expertise in low-power radio communications software; and Geomerics, a 3D-graphics software business. More details on these acquisitions can be found in note 19 to the financial statements.

Acquisition of patent portfolios and indemnification costs

In late 2012, ARM became a participant in a consortium of major technology companies that formed Bridge Crossing LLC, to acquire rights to MIPS Technologies, Inc's portfolio of approximately 500 patents. In February 2013, the consortium acquired the patent rights for \$350 million, of which ARM contributed \$167.5 million. ARM's contribution was classified within current assets as available-for-sale (\$100.5 million) and other intangibles (\$67.0 million) in the financial statements.

The available-for-sale financial asset represented ARM's right to receive cash from the Group's financial interest in the consortium, as it was anticipated that a programme of licensing the patents to third-parties would be undertaken. The other intangible asset consists of intellectual property rights that are being amortised over a period of eight and a half years, being the average remaining life of the underlying patents.

FINANCIAL REPORT CONTINUED

In the fourth quarter of 2013, the trust made a strategic decision not to pursue a licensing programme and ARM, believing there to be a significant long-term strategic advantage in owning this intellectual property, purchased the patents outright for \$4m in the first quarter of 2014. As a result of this, there is no future cash to be received from Bridge Crossing and subsequently the available-forsale investment has been impaired, giving rise to a non-cash exceptional charge of £59.5 million.

In the second and third quarters of 2013, ARM acquired a patent portfolio and indemnified a licensee's legal costs related to that patent portfolio for a total cost of £41.8 million. The cost of acquiring the patent portfolio and associated indemnification costs have been classified as exceptional items in the financial statements. More details on the exceptional items can be found in note 6 to the financial statements.

Equity investments

ARM occasionally invests in innovative companies that operate in ARM's key markets. Any such investments are made on commercial terms, usually alongside venture capital firms and other financial investors. At the end of December 2013, ARM's investment portfolio was valued at £13.9 million (2012: £13.8 million).

Treasury policy

The Group has established treasury policies aimed both at mitigating the impact of foreign exchange fluctuations on reported profits and cash flows, and at ensuring appropriate returns are earned on the Group's cash resources. The consolidated cash, cash equivalents, and deposits was £706.3 million net of accrued interest of £7.2 million as at 31 December 2013 (2012: £520.2 million net of accrued interest of £7.4 million). Net investment

income was £13.1 million for 2013 compared to £13.6 million in 2012. The decrease is due primarily to the lower interest rates available on cash deposits in 2013.

Further information on financial risk management, (including currency, interest rate, securities price, credit and liquidity risks) is provided in notes 1 (c), 11 and 17 to the financial statements on pages 77, 90 and 97.

Analysis of cash and normalised cash flow

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Cash and cash equivalents	43.8	46.3	26.8	29.4	34.5
Short-term deposits	544.I	340.0	319.1	247.4	105.5
Short-term marketable securities	-	_	_	_	1.8
Long-term deposits	125.6	141.3	83.1	15.0	_
Less: interest accrued	(7.2)	(7.4)	(5.0)	(1.7)	_
Normalised net cash, at end of year	706.3	520.2	424.0	290.1	141.8
Less:					
Normalised net cash, at start of year	(520.2)	(424.0)	(290.1)	(141.8)	(78.8)
Cash inflow from exercise of share options	(6.0)	(5.6)	(8.5)	(24.0)	(19.1)
Cash inflow from sale of available-for-sale securities	-	-	_	(0.1)	(0.7)
Add back:					
Cash outflow from payment of dividends	68.9	51.8	42.2	34.3	29.0
Cash outflow from advance payment to the MIPS patent consortium	_	104.5	_	_	_
Cash outflow/(inflow) from investments and acquisitions (net of cash acquired)	25.6	(8.8)	17.3	11.0	9.7
Cash outflow from investment in joint venture	3.7	7.5	_	_	-
Cash outflow from restructuring payments	-	_	_	4.5	3.5
Cash outflow from other acquisition-related payments	4.6	3.8	3.1	_	_
Cash outflow from share-based payroll taxes	16.3	14.4	12.4	3.2	0.7
Cash outflow from payments related to Linaro	3.5	3.5	3.4	2.7	-
Cash outflow from IP indemnity and similar charges	41.8	_	_	_	-
Normalised net cash generation	344.5	267.3	203.8	179.9	86.1

Our Vision Our Performance Our Commitment Our Financial Report

Principal risks and uncertainties

In line with the guidance for the preparation of an operating and financial review, the principal risk factors faced by the Group are identified in the "Risk Management and Principal Risks" section on pages 47 to 49. Details of other risks and uncertainties faced by the Group are noted within the Annual Report on Form 20-F for the year ended 31 December 2013, which is available on ARM's website at www.arm.com.

Further details of the Group's internal controls and risk management procedures are included in the Governance and Financial Report.

Segmental reporting

Internally, up to 31 December 2013, ARM was organised on a worldwide basis into three main business segments, being the Processor Division (PD), the Physical IP Division (PIPD) and the System Design Division (SDD). Whilst revenues are also reported into four main revenue streams (namely licensing, royalties, software and tools and services), the costs, operating results and balance sheet are only analysed into these three divisions.

ARM's strategy is to deploy this internal organisation to develop and license technology to semiconductor companies so that ARM-based products gain market share in long-term growth markets such as mobile phones, tablets, consumer electronics, enterprise applications and embedded digital devices. In communicating our progress against this strategy externally on an ongoing basis, we have developed key performance indicators which enable investors and analysts to track how ARM is performing in market share terms in these markets. Therefore, the commentary on strategy and KPIs in the Strategic Report focuses on our progress in penetrating these end markets as we believe this is the clearest way for investors and analysts to understand ARM's progress against its long-term strategic objectives.

PD revenues (including revenues from services) in 2013 were £596.2 million (\$931.5 million), compared with £473.9 million (\$749.8 million) in 2012. PD licensing revenues are driven by customers' ongoing R&D programmes. Royalty revenues increased in 2013 as ARM technology continued to gain market share.

PIPD revenues in 2013 were £82.0 million (\$129.1 million), compared with £68.3 million (\$108.4 million) in 2012. PIPD revenues increased as a result of more companies choosing to outsource their physical IP development to ARM. SDD revenues in 2013 were £36.4 million (\$57.1 million), compared with £34.7 million (\$54.9 million) in 2012.

Profit before tax in the year for PD was £169.6 million, compared to £230.6 million in 2012. Normalised profit before tax in 2013 for PD was £345.5 million, compared to £266.7 million in 2012. The decrease in profit before tax reflects the exceptional items that were charged to the income statement in 2013. Under the normalised measure, profit before tax in PD increased, mainly as a result of increased revenues.

Loss before tax in the year for PIPD was £8.7 million, compared to a loss of £14.5 million in 2012. Normalised profit before tax in 2013 for PIPD was £5.4 million, compared to a normalised loss before tax of £3.4 million in 2012. Loss before tax in the period for SDD was £6.2 million, compared to £5.4 million in 2012. Normalised profit before tax in 2013 for SDD was £1.2 million, compared to £1.4 million in 2012. The improved results in both of these business segments are primarily due to increased revenues.

As part of the ongoing evolution of the business, the Group's divisional structure was re-organised on I January 2014. As a result of this change, the Group's business segments may change for future reporting periods in order to reflect this new organisation.

A more detailed segmental analysis is provided in note 2 to the financial statements.

This Strategic Report is approved by the board of directors.

By Order of the Board

TIM SCORE

Chief Financial Officer

FINANCIAL REPORT CONTINUED

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	2013 £m	2012 £m
Revenues	714.6	576.9
Cost of revenues	(39.3)	(31.9)
Gross profit	675.3	545.0
Operating expenses		
Research and development	(202.9)	(166.3)
Sales and marketing	(89.4)	(72.9)
General and administrative	(128.2)	(97.7)
Total operating expenses before exceptional items	(420.5)	(336.9)
Exceptional items	(101.3)	-
Total operating expenses after exceptional items	(521.8)	(336.9)
Profit from operations	153.5	208.1
Investment income	13.3	13.9
Interest payable and similar charges	(0.2)	(0.3)
Share of results in joint venture	(4.0)	(0.7)
Profit before tax	162.6	221.0
Tax (including £8.6 million in respect of exceptional items)	(57.8)	(60.3)
Profit for the year	104.8	160.7
Earnings per share		
Basic and diluted earnings	104.8	160.7
Number of shares (millions)		
Basic weighted average number of shares	1,396.4	1,375.1
Effect of dilutive securities: Employee incentive schemes	15.4	20.7
Diluted weighted average number of shares	1,411.8	1,395.8
Basic EPS	7.5p	11.7p
Diluted EPS	7.4p	11.5p

All the profit for the year is attributable to the owners of the Company and all activities relate to continuing operations.

FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

For the year ended 31 December	2013 £m	2012 £m
Assets		
Current assets:		
Cash and cash equivalents	43.8	46.3
Short-term deposits	544.1	340.0
Fair value of currency exchange contracts	5.1	1.4
Accounts receivable	136.2	124.5
Available-for-sale financial assets	1.2	_
Prepaid expenses and other assets	39.8	135.6
Current tax assets	6.9	13.9
Inventories	3.0	2.3
Total current assets	780.1	664.0
Non-current assets:		
Long-term deposits	125.6	141.3
Loans and receivables	3.0	2.1
Available-for-sale financial assets	13.9	13.8
Investment in joint venture	6.5	6.8
Prepaid expenses and other assets	1.6	2.0
Property, plant and equipment	33.6	36.1
Goodwill	525.9	519.4
Other intangible assets	82.9	11.2
Deferred tax assets	65.3	70.1
Total non-current assets	858.3	802.8
Total assets	1,638.4	1,466.8
Liabilities	·	
Current liabilities:		
Accounts payable	7.0	5.9
Embedded derivatives	7.0	2.5
Accrued and other liabilities	88.1	79.3
Finance lease liabilities	2.7	2.9
Current tax liabilities	18.8	16.6
Deferred revenue	156.7	126.4
Total current liabilities	280.3	233.6
Non-current liabilities:		
Accrued and other liabilities	2.6	_
Finance lease liabilities	1.5	2.9
Deferred tax liabilities	0.1	_
Deferred revenue	42.5	24.2
Total non-current liabilities	46.7	27.1
Total liabilities	327.0	260.7
Net assets	1,311.4	1,206.1
Capital and reserves attributable to owners of the Company		
Share capital	0.7	0.7
Share premium account	18.1	12.2
Capital reserve	354.3	354.3
Share option reserve	61.4	61.4
Retained earnings	820.6	703.3
Cumulative translation adjustment	56.3	74.2
Total equity	1,311.4	1,206.1

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.
bigLITTLE	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 s oftware providers
Fabless semiconductor company	A fabless semiconductor company designs computer chips. These chips are typically manufactured by a foundry. For example Mediatek, NVIDIA and Qualcomm.
Foundry	foundry is a specialist company that manufacturers 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 streetlights.
Licence	A licence is a legal agreement that confers certain rights to our Partners. They pay an upfront free, 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/can be used in many applications. Most ARM processors are used in either an SoC or MCU.
Original Equipment Manufacturer (OEM)	(OEM) An OEM manufactures consumer products such as TVs or mobile phones. For example Apple, HTC or LG
Partner	A Partner is a licensee of ARM's processor technology.
Physical IP	Design of the building blocks used in the implementation a SoC design.
Processor	Design of the brain of the computer chip.
POP IP	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)	A 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.

The auditors' report on the financial statements and the auditors' statement under section 496 of the Companies Act on whether the information given in Strategic Report and Directors' report (for the financial year ended 31 December 2013) is consistent with the Group financial statements were both unqualified and can be found on page 55 of the Governance and Financial Report.

Investor relations contact details:

If want to inform us of a change address or have lost your share certificate or have an enquiry about dividend payments please contact:

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61

