

Shaping the Connected World



ARM

ARM Holdings plc
Strategic Report 2014

ARM works closely with many of today's most innovative companies to create the technology that is shaping a more energy-efficient and connected world.

Our strategy is to develop and deploy energy-efficient technology; to enable innovation through a broad ecosystem of Partners, building on our shared success; and to create superior returns for our shareholders by investing in long-term growth.

Photo: Shanghai, China.

In 2014, the number of China's internet users going online with a mobile device – such as a smartphone or tablet – overtook those doing so with a personal computer.



Overview

2014 reporting suite

ARM has designed its 2014 reports to provide a comprehensive overview of the business.

How to use this document

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

Strategic Report

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

This Strategic Report has been approved by the Board of Directors.

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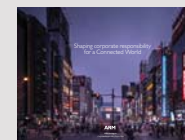


Governance and Financial Report

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



A copy of the Governance and Financial Report can be downloaded from www.arm.com/reporting2014



Corporate Responsibility Report

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



A copy of the Corporate Responsibility Report can be downloaded from www.arm.com/reporting2014



Investor Relations website

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



The Investor Relations website can be found at www.arm.com/ir

Non-financial highlights

ARM technology can be found in about 37% of the world's smart electronic devices sold in 2014

Our goal is to create a world of smart connected devices and services, all based on energy-efficient technology, making life better for everyone.

1,198

At the end of 2014, ARM had signed 1,198 licences cumulatively with 389 semiconductor companies.



12 billion

In 2014, ARM Partners reported that they had shipped 12 billion ARM-based chips, taking the total shipped to date to more than 60 billion.



37%

ARM's market share grew to 37%. We retained our high share of chips into mobile devices, and increased penetration into key growth markets such as enterprise infrastructure and embedded intelligence.

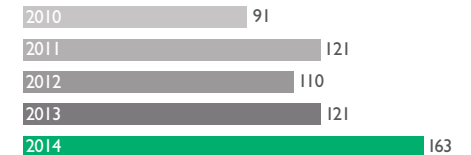


+461 employees

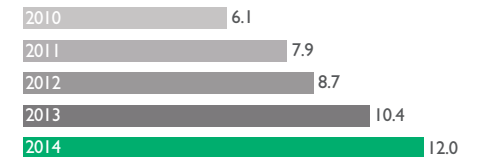
ARM hired 461 net new employees in 2014. More than 50% joined R&D teams developing ARM's next generation technology.



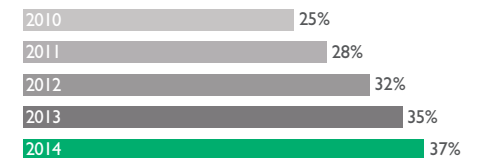
Number of ARM licences signed



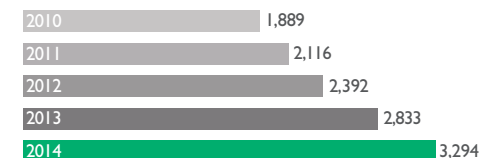
Shipments of ARM processor-based chips (bn)



Market share %



Investment in people number of employees



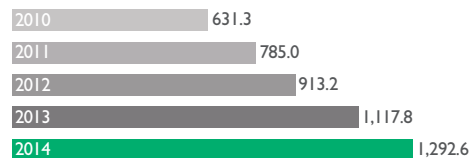
Financial highlights

Shaping a platform for growth

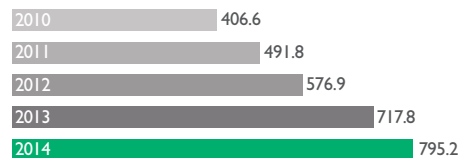
We create returns for our shareholders by investing in long-term growth opportunities.

> An explanation of "normalised" can be found at the beginning of the section "Our financial strategy", page 52.

Dollar revenues \$



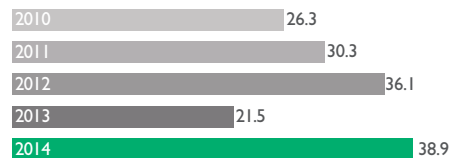
Sterling revenues £m



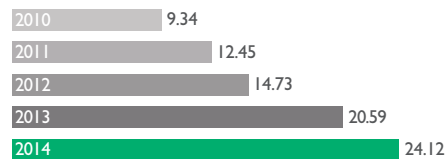
Normalised operating margin %



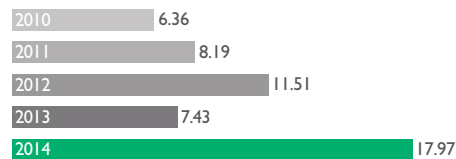
IFRS operating margin %



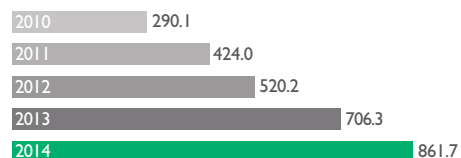
Normalised diluted earnings per share pence



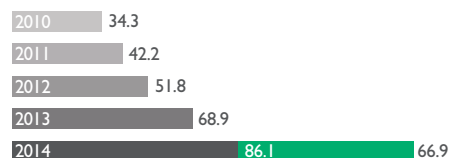
IFRS diluted earnings per share pence



Total cash £m



Cash returns to shareholders £m



■ £m dividend / ■ £m buybacks

Dollar revenues
+16%



Full year dividend
7.02p
+23%



Between 2005 and 2008 ARM bought back shares worth £261 million. There were no buybacks from 2009 to 2013.

Cumulatively ARM has returned more than £700 million to shareholders since 2004 through a combination of dividends and buybacks.

Chairman's overview

Creating the technology that shapes the connected world



Stuart Chambers
Chairman

ARM is the world's leading semiconductor IP company. We develop and license technology that is at the heart of many of the digital electronics devices sold each year, from smartphones and tablets to sensors and servers. ARM's microprocessor technology is helping to shape the world we live in as smart chips connect each of us to our friends, to our communities, to our work, and to our online lives. We have embraced the rapid pace of change in our digital world by developing technology that brings new possibilities to a globally connected population.

ARM is a fast-growing business in a dynamic and competitive market. In 2014 our customers reported that they had shipped 12 billion ARM-based chips, an increase of 16% on 2013. Just under half of those chips were shipped into mobile devices, including smartphones and tablets, where ARM has a high market share. An increasing number of chips were shipped into new markets, including enterprise networking infrastructure and embedded intelligent devices such as microcontrollers and chips for the Internet of Things.

There have been some challenges in 2014. In the first half of the year, inventory management in the consumer electronics supply chain led to a slowdown in the sale of chips, especially into smartphones. As the majority of ARM's royalty revenues are generated from the sales of chips into consumer electronics, we saw slower royalty revenue growth in 2014 than in prior years.

In this context, ARM has performed well. Group dollar revenues increased 16% and normalised diluted earnings per share by 17% (IFRS: 28%*). The Board has recommended an increase in the full year dividend for 2014 of 23% and, during the year, approved the buyback of 7.9 million shares, demonstrating the Board's confidence in ARM's long-term growth opportunities.

16%

Dollar revenue growth

17%

Normalised diluted EPS growth

28%

IFRS diluted EPS growth*

23%

Full year dividend growth

*Growth based on 2013 EPS before exceptional items.

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 key determinants of our success. We hired net 461 additional employees, the majority of whom are engineers working in processor design and software development. These new hires were a mix of graduates and experienced talent from all over the world.



> More about people and culture on page 40

Board changes

In January 2014, ARM announced that Sir John Buchanan was stepping down from the ARM Board due to a medical condition. The Board, management and employees of ARM wish John well, and thank him for his contribution to the business. As for me, it is a privilege and a pleasure to succeed him as Chairman. ARM is an ambitious company with a great opportunity ahead of it and I am delighted to be part of the team.

In May 2014, ARM announced that Tim Score, ARM's Chief Financial Officer, had decided to retire in May 2015. In his time as CFO Tim has been a key part of the team transforming ARM

over the last 13 years. Tim joined ARM in 2002, and since the end of that year the company has grown normalised earnings per share at a CAGR of about 20%. On behalf of the Board, the management, and the wider ARM team, we thank Tim for his passion and service throughout this period of transformation.

Chris Kennedy has been appointed to succeed Tim Score as CFO, and will join the Board of ARM Holdings plc as a director once he has completed his commitments with his current employer.

Dr John Liu joined the Board on 1 December 2014 as an independent non-executive director. John, a Chinese national, has many years of experience managing technology companies in Asia, particularly Greater China including Qihoo 360 Technology Co. Ltd and Google Inc.

Two non-executive directors left the Board in 2014; Philip Rowley stepped down from the Board in May 2014 after serving his nine-year term, and Eric Meurice stepped down in March 2014 in order to avoid a potential conflict of interest arising. We thank Philip for his hard work and diligence as Chair of the



> Read more in "Governance", page 46

Remuneration Committee, and thank both Philip and Eric for their valuable contributions to Board discussions and decisions.

The above changes are consistent with our aim of having a Board of the right size and composition, and with the right balance of skills and expertise. Together we have continued to refine ARM's strategy for growth; to develop and deploy energy-efficient technology; to enable innovation through a broad ecosystem of partners, building on our shared success; and to create superior returns for our shareholders by investing in long-term growth. These investments are focused on our opportunities in the continuing growth of mobile devices, as well as networking infrastructure and the Internet of Things.

An expanding opportunity

Finally, I would like to thank all of ARM's employees for their effort and contribution in 2014. I look forward to seeing how this exciting company, the technology it creates, and the broad ecosystem of semiconductor companies and supporting Partners, will shape the future for our increasingly connected world.

We have ensured that we have a Board of the right size and composition, and that the team has the right balance of skills and expertise.



A new angle

3D Robotics develops innovative, flexible and reliable personal drones and UAV technology for everyday exploration and business applications. The Pixhawk autopilot system is a complete solution for multi-platform autonomous vehicles, based on the open-source Pixhawk autopilot. It is powered by an STMicroelectronics STM32F427 MCU, featuring a ARM Cortex®-M4 microcontroller.



Find out more:

3D Robotics drones were used in the filming of the adventure movie "Sugar Mountain", released in November 2014.

<http://goo.gl/2ldbYW>

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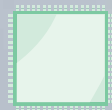
CEO's statement

08

CEO's statement

Opportunities and challenges in an increasingly connected world

One of the most asked questions by investors is: ARM has seen many years of fantastic growth, so how is it going to continue to grow from here? I believe that we have many opportunities ahead of us as mobile products become more capable; as more people in the world gain access to smarter devices; and also as ARM technology is increasingly used in a widening range of digital products from sensors to servers.



1991: 1st ARM-based chips started to ship



1bn

2001: 1 billion ARM-based chips shipped



60bn

2014: Over 60 billion ARM-based chips shipped

Fundamentally, we create technology that helps to make consumer and industrial electronics smarter, more capable and more energy-efficient. We provide cost-effective processor technology that is deployed into the products that many consumers and businesses use every day. As these products sell in increasingly high volumes, they help drive ARM's revenues. We can then invest in the development of new technology in order to generate superior returns for shareholders over the long term.

The first ARM-based chips started to ship in 1991, and by 2001, 1 billion ARM-based chips had been shipped. Today that cumulative number stands at over 60 billion, with 12 billion shipped in 2014 alone, up 16% on the previous year. Just under half of the chips sold by our customers last year went into mobile devices, and the remainder into a vast array of other end markets: digital TVs, cameras, white goods, WiFi routers, printers, disk drives and safety systems in cars.

Today ARM has 1,198 processor licences signed with our Partners. Of the 163 that were signed in 2014, about a quarter are intended for use in mobile devices, so the other three quarters are helping to expand our opportunity into markets beyond mobile.

The past year was not without challenges. Sales of ARM-based chips into mobile devices and consumer electronics were impacted by an inventory correction, so our royalty revenue growth was less than we would normally have expected. These industry-wide inventory corrections occur from time to time, and this is the fifth we have seen in the past decade. They have been relatively short-term, and it is important not to be diverted from our strategy. Careful management of our costs ensured that we were able to maintain our R&D investment plans whilst increasing profits and cash returns to shareholders.

Over the next few pages I review some of ARM's main opportunities and challenges and how we are responding to them.

We develop technology that makes consumer and industrial products smarter, more capable and more energy-efficient.

Simon Segars
Chief Executive Officer



CEO's statement continued..

Mobile computing

Today there are about 2 billion people who own a smartphone, and each of those smartphones contains at least one ARM-based chip.

Xiaomi Smartphone

The Xiaomi Redmi 1S smartphone is promoting 4G uptake in China by bringing Chinese consumers cost-effective phones that are comparable to the world's top smartphones. It is based on MediaTek® MT6582 SoC integrating an ARM Cortex®-A7 CPU and an ARM Mali™-400 GPU. It was manufactured using a leading-edge 28nm processor, and has ARM TrustZone® technology support for system-level security.



Over the past decade the market for mobile phones has been transformed. The key selling point behind a mobile phone used to be the hardware, the physical phone itself. Consumers wanted to replace phones that use a grey-scale screen with a colour screen. They wanted phones which were thinner or lighter or had a longer battery life. Then, as mobile phones became smartphones, software and apps became the key differentiator. We now see apps stores with millions of apps from gaming to photography to productivity; there is an app for almost everything. Now, it is the service that is enabled by the smartphone that is important to many: improving fitness, providing directions, ordering a meal, or booking a taxi.

We are already at the start of the next wave of mobile technology. In advanced economies, the smartphone is connecting to other devices such as smart watches and thermostats. This will extend the information and services available to you via your smart mobile device. Also, we are seeing the growth of LTE/4G networks which are dramatically increasing the bandwidth of network connectivity, and reducing the lag in communications. We expect that faster and more responsive networks will change the way we use smartphones, giving these devices the potential to be an even more essential part of our lives.

Of the 7 billion mobile subscriptions globally, only 2 billion are for smartphones. This is a huge opportunity for the industry as more people are choosing to upgrade from a basic phone to a smartphone. Many of the people using basic phones are located in the developing world, where only one in three people has access to the internet.* However, with lower-cost smartphones becoming more widely available, more people are now able to connect for the first time.

Low-cost smartphones are being used in new and innovative ways to help alleviate local problems:

- ▶ In countries where many people don't have bank accounts, mobile phones are used to transfer money from phone to phone
- ▶ Low-cost peripherals can be used as a medical diagnostic tool that can help with health care in remote regions
- ▶ Educational material can be distributed electronically, either in written or spoken form, lowering the barriers to knowledge. We have seen examples where farmers have learnt how to improve the productivity of their crops and livestock, and parents have learnt how to prevent and treat childhood disease

The ongoing revolution in the use of mobile technology, in developed and emerging economies, is bringing new opportunities for creativity and innovation, based on ARM technology, which will help to shape a more connected world.

* ITU Report 'The World in 2014'

The Internet of Things

With smartphones as an open platform, apps developers don't need scale to start a business; they don't need factories, distribution channels or global logistics. With mobile computing, you just need an idea. And we are seeing a similar trend in the Internet of Things (IoT).

The Arduino™ Zero is a simple and powerful ARM-based Arduino development board. This board is based on the low-power and high efficiency of a 32-bit ARM Cortex-M0+ microcontroller powered by Atmel® SAMD21 MCU. The Zero board expands the Arduino family by providing increased performance to fuel the creativity of the maker community and beyond.



In the same way that connecting mobile phones to the internet transformed how we communicate with each other and interact with our data, connecting other devices to the internet could further improve our lives and experiences. And this is the concept of the Internet of Things.

An IoT device may consist of several sensors, a microcontroller to monitor the sensors and a wireless chip to connect the device to a network. Today, the computer power needed to create an IoT device can be found in chips that are small enough to fit into the dimple of a golf ball, cost only a few tens of cents and have a battery life that can last for months.

This has created the opportunity for truly ubiquitous computing. Many of the things around us can be connected to the internet, enabling us to control and interact with our environment in entirely new ways. Some of the first IoT applications include:

- ▶ Managing irrigation systems to increase crop yields using less water.
- ▶ Remote medical monitoring for patients whilst allowing them greater freedom.
- ▶ Smarter cities supporting larger populations with less congestion.
- ▶ Factories creating a greater variety of end products at a lower cost than mass manufacturing could ever achieve.

We are also seeing embedded intelligence enabling products to be used in entirely new ways. For example, footballs and basketballs are having location and spin sensors embedded within them to help athletes of all abilities improve their game – to bend the football into the goal, or hit the basket at the optimum angle.

A new IoT product or service can be inexpensive to design and quick to bring to market. ARM and its Partners have worked together to create a suite of development boards, which can be combined with sensors and motors, to detect, control and communicate with almost anything. Combined with free software tools, and easy connectivity to a smartphone and cloud computing services, a prospective inventor can build a prototype for less than \$100. This is encouraging a new generation of entrepreneurship and innovation that will change the world for all of us.

Connecting millions of IoT devices can be challenging and so in 2014 we announced the ARM mbed™ IoT Device Platform that can connect and manage global networks of smart connected embedded computers. We will continue to invest in new technologies that enable the deployment of ARM-based chips.

CEO's statement continued..

Servers and networking infrastructure

With more smartphones and tablets allowing everyone to create and access more data, faster and with lower latency, and with more IoT devices connecting and communicating across the network, we are witnessing a huge increase in the demands on mobile and wired networking infrastructure, all the way to the servers within data centres all over the world.

To meet these increasing demands, network operators are building a new generation of infrastructure with much greater capacity. To avoid an associated increase in electricity usage, they are choosing to use more energy-efficient chips for their base stations, switches and routers. This is creating opportunities for chips built using ARM's most advanced technology, which can help deliver high performance with less energy than previous approaches.

We have already licensed our technology to nearly all the major semiconductor companies who are making chips for this market, and some of these chips are just beginning to ship into 4G and small-cell base stations. With our Partners, we are now working to ensure that there is an optimised software ecosystem to enable carriers and network operators to deploy their services easily on ARM-based networking equipment. Over the next few years we expect our market share in networking infrastructure to grow as more of our Partners start to ship ARM-based chips for networking infrastructure.

The ARMv8-A architecture has been the key technology to enable our Partners to gain share in servers. Processors based on ARMv8-A are able to manage very large amounts of data, can scale to a great many cores in a single chip, and support key server functionality such as error correction and acceleration for encryption. We started work on ARMv8-A in 2007, signed our first licence in 2009 and saw the first commercial chips ship into server applications in 2014. During 2015 we expect several more companies will start to ship ARM-based server chips, and we may also see the first large-scale server systems built.

Competition

Our competition continued to be active in 2014. There were new processors and chips announced by competitors, and they had new design wins and started new strategic initiatives. Some competitors are trying to win share in smartphones and tablets, and also to defend their share in markets where ARM's technology is challenging them, such as in networking infrastructure and servers.

ARM welcomes this competition – together with our Partners, we work hard to make our products as competitive as possible. During 2014, we saw our Partners introduce new technology based on ARM processors from the highest performance chips into servers and smartphones to low-cost, low-power chips for IoT. We have now signed 63 licences with 38 companies for ARMv8-A technology, and in 2014 we started licensing two new ARMv8-A processors.

Enterprise infrastructure

At the end of 2014, more than 15 companies had licensed ARMv8-A technology for enterprise infrastructure applications. This market is a key growth area for ARM.



Developing the ecosystem

ARM, its customers and a broader partnership of companies create an ecosystem of innovation and invention. It is critical to ARM's long-term success that this ecosystem thrives and grows and adapts for the next generation of ARM-based technologies. For an original equipment manufacturer (OEM) to build a smartphone or a server or an internet-connected sensor, they need technology from multiple companies to integrate together into a single end product. ARM and its ecosystem provide this technology from processor designs, to chip designs and manufacturing, to software tools and operating systems, to training and design services.

As ARM technology enters new markets, we invest a lot of time and resources into bringing new companies into the ecosystem, and we help ensure that the relevant technology within the ecosystem works well together. We work with others within the ecosystem to establish standard specifications; we create not-for-profit entities to enable technology collaboration to solve common problems; we use technology from multiple companies to build test chips and example products; and we share our technology plans with companies so we can align our plans for developing technology.

Collectively, the ARM ecosystem is the strongest in the industry.

Developing the organisation

ARM has always taken a long-term view, as it can take many years for technology to go from an idea being discussed by one of our engineering teams to a design licensed to our Partners, and then to a chip, and then to an end-market product being shipped in millions. This long-term view influences how we invest in the business and how we develop the capability of the people who are at the heart of this business, and the tools and processes that support them.

This long-term view does not prevent us from being nimble when new opportunities present themselves. For example, as we identified an opportunity to develop new products for the IoT, we formed a new team by combining a newly acquired company with parts of existing engineering and marketing teams. We were able to ensure that we had the right skills, technology, partnerships and industry connections to enable ARM to become the primary technology used in all of the IoT end markets.

ARM is continually investigating new markets and experimenting with new technologies to discover new opportunities to grow. Some of these new technologies will be extensions of our existing product portfolios, or we may be able to take our existing technology into new market areas. We may even get the opportunity to create a new technology in a brand new market.

We are now preparing for the next ten years of ARM's growth. At the beginning of 2014 we reorganised the business, and combined all the divisions together into a single product development team. This is led by the President of Product Groups, who is responsible for developing all of our current product roadmaps. We have also recruited new executives into the positions of CIO, EVP People and General Counsel, and with the retirement of Tim Score, we will soon welcome Chris Kennedy as our new CFO.

I believe these changes will significantly strengthen the ability of the business to deliver our current roadmap, and give us the flexibility to explore new prospects and new directions, and together these will drive ARM's opportunities for many years to come.

In addition, the whole company has placed emphasis on improving our agility and speed, and the effectiveness of the entire organisation. We have been asking: "How can this task be done faster and with higher quality?" and applying our culture of innovation to the way we do things.

Together we are creating an environment where it is easier to get things done, where information flows and is easier to find and share; where repetitive tasks are automated and where our collective brain power can be applied to the most value-add activities – innovating, thinking, listening, collaborating, learning from each other and partnering to build the most successful and strongest ecosystem the technology world has ever seen, and that will drive growth for years to come.

Supporting creativity everywhere

ARM is lowering the barriers to entrepreneurship by providing tools to create the next generation of ARM-based devices.

One of ARM's undergraduate engineers designed a message board that connects wirelessly to a smartphone. This prototype took a few days to develop, and the components (excluding the phone) cost less than \$100.

Visit www.mbed.org for low-cost development boards and libraries of free software.



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Our marketplace

Where the market is now

The semiconductor industry develops the chips that 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 the semiconductor market

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 contain many silicon chips. Also, many enterprise and industrial applications, from sensors to servers, are made smarter and more efficient by silicon chips.

The semiconductor ecosystem

As consumer electronic products and industrial equipment have become more sophisticated, the chips that control them have become more complex and more costly to develop. The semiconductor industry has disaggregated into specialist companies that focus on each stage in the creation, design and manufacture of a silicon chip. This allows each company to invest and innovate in the area where they can add the most expertise in the value chain.

Some companies specialise in designing the chip; other companies specialise in developing critical intellectual property (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.

ARM works closely with all the leading companies within the semiconductor ecosystem to ensure that its technology works well with other companies' products, that silicon chip designers can quickly build low-power and high-performance chips, and that OEMs can create complex programs using a combination of third-party and in-house 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.

The market in 2014

In 2014, approximately 65 billion silicon chips were manufactured.* Of these, some 33 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 the chip goes into. ARM estimates that the total value of chips with processors sold in 2014 was about \$80 billion, and that by 2020 the value of this market will have grown to about \$120 billion.

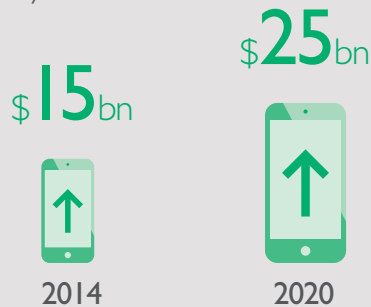
ARM processor designs were in 12 billion chips, a 37% market share. About half of the ARM-based chips went into mobile devices. Moreover, in recent years we have also started to gain share in important growth markets such as enterprise infrastructure and embedded intelligence.

Over the next few pages we look at the main markets for ARM's technology.

*World Semiconductor Trade Statistics, January 2015

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

Mobile computing chip six-year forecast



Gionee P2S – low-cost phone

The Gionee P2S low-cost smartphone is based on a MediaTek™ MT6572 SoC with an ARM Cortex-A7 CPU and an ARM Mali-400 GPU.



For many people, mobile computers, including smartphones and tablets, have become their primary device for sending emails, browsing the internet and engaging with friends on social networking sites.

In 2014 most media attention was given to the premium end of the market, with launches of eagerly awaited new devices. These top-of-the-range mobile devices introduce new features that often trickle down into mid-range and low-cost smartphones over subsequent years. Recently we have seen the introduction of larger screen sizes, better security and increased connectivity with 4G modems, cloud storage and local connections to health-related devices.

We also saw the introduction of very low-cost smartphones during the year, many costing less than \$100 even without a subsidy, and some costing as little as \$35. In emerging economies, phones at these low price points are connecting people to the internet for the first time, especially in Africa, South America and some Asian countries. This is bringing new opportunities for better access to information and education, as well as entertainment. All of these low-cost phones need smart, low-power chips and this is expanding the size of the opportunity for our technology.

Progress for ARM in 2014

During 2014 many of the leading chip vendors announced that they were developing chips based on the latest ARMv8-A architecture. Companies including Qualcomm, MediaTek and Samsung announced plans to ship these chips either in late 2014 or early 2015. Several handset OEMs have introduced phones utilising ARMv8-A-based chips and we expect this technology to be deployed increasingly throughout 2015. ARMv8-A-based chips typically deliver a higher royalty than the previous generation.

2014 also saw the introduction of many chips using ARM's big.LITTLE™ technology. This places a high-performance processor alongside a high-efficiency processor, and allows each operating system task to be run on the processor best suited to the job. This enables OEMs to build extremely responsive devices with extended battery life.

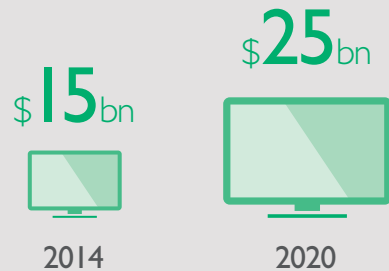
All modern applications processor chips for smartphones and tablets contain a graphics processor. In 2014 ARM's Mali™ graphics processor continued to gain share, especially in chips being used in the fast-growing market for mid-range and entry-level handsets. A Mali graphics processor can be found in over 75% of the application processors made by Chinese companies, and MediaTek started to ramp its Mali-based chips during 2014. In 2014 our customers shipped more than 550 million chips with Mali graphics, taking the cumulative number of Mali-based chips shipped to over 1 billion.

ARM continued to see strong demand for its physical IP optimised for use with processors (POP IP), especially for mobile and consumer electronics. POP IP™ enables a licensee to achieve high-performance, low-power processor implementations through specially optimised physical IP technology. During the year ARM signed 15 POP IP licences, including nine for our ARMv8-A processors and one for our Mali graphics processors.

Our marketplace continued...

Embedded intelligence – connecting billions of smart sensors into the Internet of Things

Embedded intelligence chip
six-year forecast



The communication network of an electronic shelf label (ESL) system allows the price display to be automatically updated whenever a product price is changed. M2Communication's turnkey ESL solution has been adopted by multiple stores with more than 6,000 labels applied, which provides superior performance in data transmission and ultra-low-power consumption. The access point, the router and 6,000 labels are all powered by ARM® Cortex®-M0 based MCU from Nuvoton. They are expecting to have 250K labels applied in-store by the end of 2015.



Many of the products and services we use every day are enabled by small smart microcontrollers or smartcards. For example, the control panels and electric motors in washing machines or elevators, the remote controls for TVs, and the chips in passports or credit cards. During 2014 the market for microcontrollers and smartcards grew 13% to 18 billion devices. The average selling price of these chips was around 90 cents, which allows them to be integrated into low-cost products and make almost any device smart.

These tiny computers are also being combined with sensors and wireless radios, thereby adding new functionality to existing products and even creating entirely new types of products for consumers, enterprises, agriculture and infrastructure. Collectively these technologies are referred to as the Internet of Things (IoT). Although this is still a nascent market, it is expected to become very large.

This large opportunity, combined with relatively low barriers to entry, is attracting many semiconductor IP companies who wish to compete for market share. ARM is well positioned for this market as we already have licensed our technology to many of the companies that currently sell microcontrollers.

Progress for ARM in 2014

Over the past few years 200 companies have licensed ARM technology for use in these types of applications. ARM processors have the right balance of intelligence, size and energy-efficiency for these tiny smart chips. In 2014 a survey by Canalys indicated that about 80% of wearable devices sold contained at least one ARM-based chip. Our customers expect to gain high market share in other IoT applications, and there are now over 3,500 different smart sensor chips and intelligent microcontrollers available for IoT.

ARM is seeing an amazing amount of creativity and innovation across a huge range of markets as students and enterprises start to solve their problems using smart connected sensors. To accelerate this work, ARM and its Partners have provided low-cost development tools and online support, and have gathered a community of makers and inventors who are using ARM-based technology to create new products and solve long-standing problems.

There is much ongoing experimentation as companies and individuals seek to use smart connected sensors to solve age-old problems. Much of this experimentation is being enabled through development tools costing less than \$20, and through easy connectivity with smartphone apps and cloud computing and storage.

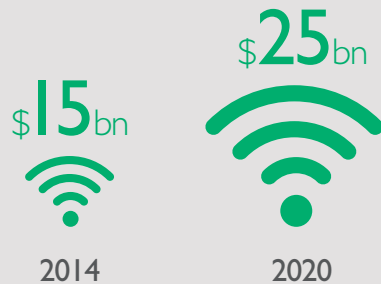
During the year ARM announced several new products to help accelerate embedded intelligence products. ARM's new Cortex®-M7 processor delivers unprecedented performance for microcontroller chips. It has been licensed by five companies, including STMicroelectronics, which has already demonstrated working chips based on this technology.

Our mbed IoT Device Platform includes a new product line for ARM: server software that enables companies to manage their networks of internet-connected devices.

ARM also announced another physical IP platform licence with a leading foundry at 55nm. ARM now has physical IP agreements with four foundries at the 55nm node, the smallest geometry with general purpose embedded flash, which is a requirement for many embedded and IoT applications.

Efficient enterprise infrastructure – moving more data, without using more energy

Enterprise infrastructure chip six-year forecast



"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."



Enterprise infrastructure equipment moves data around the world. It includes mobile phone base stations, WiFi hotspots in cafés and train stations, corporate networks, cable and satellite TV distribution, video-on-demand servers and the entire data centre infrastructure that connects the internet together. Huge numbers of chips are needed within these systems and we estimate that there were about 1.5 billion chips sold for use in enterprise infrastructure in 2014, worth about \$15 billion.

During 2014 many mobile operators continued to roll out their 4G/LTE networks. These networks are designed to handle the huge increase in data expected from the growing use of smartphones and tablets. Operators are creating more heterogeneous networks made up of macrocell base stations that provide coverage over wide zones, supported by small-cell base stations that boost data capacity in built-up areas. To make these complex network topologies easier to manage, operators are also deploying network function virtualisation systems that use server-like technology to handle the huge amount of traffic generated by these networks.

Telecoms operators and data centre managers are now looking for lower power technology to better transport, distribute, analyse and store data across networks. This is leading to increased levels of innovation as companies manage the demand for faster data throughput, at constant energy loads. System-on-Chip designs based on ARM technology are well placed to provide lower power options for enterprise applications, such as servers and networking equipment.

Progress for ARM in 2014

Throughout 2014 there have been multiple announcements from ARM's Partners.

Advanced Micro Devices (AMD), Applied Micro and Cavium announced that they were working on ARM-based chips for servers and core network applications. Applied Micro started shipping chips in Q2 2014; AMD and Cavium expect to have commercial chips early in 2015.

Leading server manufacturer, HP, shipped the first ARM-based servers with chips from Applied Micro and Texas Instruments. PayPal gave details of how it is using those HP servers to detect significant events (e.g. fraud) within payment data as it is collected in real time.

With ARM-based servers becoming available in 2014, leading software companies Canonical, IBM, Oracle and Red Hat announced roadmaps to support ARM technology.

In 2014, ARM's share of chips into networking infrastructure equipment was about 10%, up from 5% the year before. Many of these chips went into 4G base station equipment. 4G mobile phone networks are based on a range of equipment from small cell, picocell and macrocell base stations to virtualised networks running in a server. This requires a wide variety of chips with different functionality and capabilities. By standardising these chips around the ARM architecture, network operators can simplify the development and maintenance of the software that runs on all these different types of chips.

These very complex chips are likely to be manufactured using the most advanced technology, and in October 2014, HiSilicon announced that it had manufactured the first multi-core ARMv8-A-based chip using TSMC's 16nm FinFET process. The chip contains 32 ARM Cortex-A57 processors, running at up to 2.6GHz, and will be deployed in next-generation wireless communications and routers.

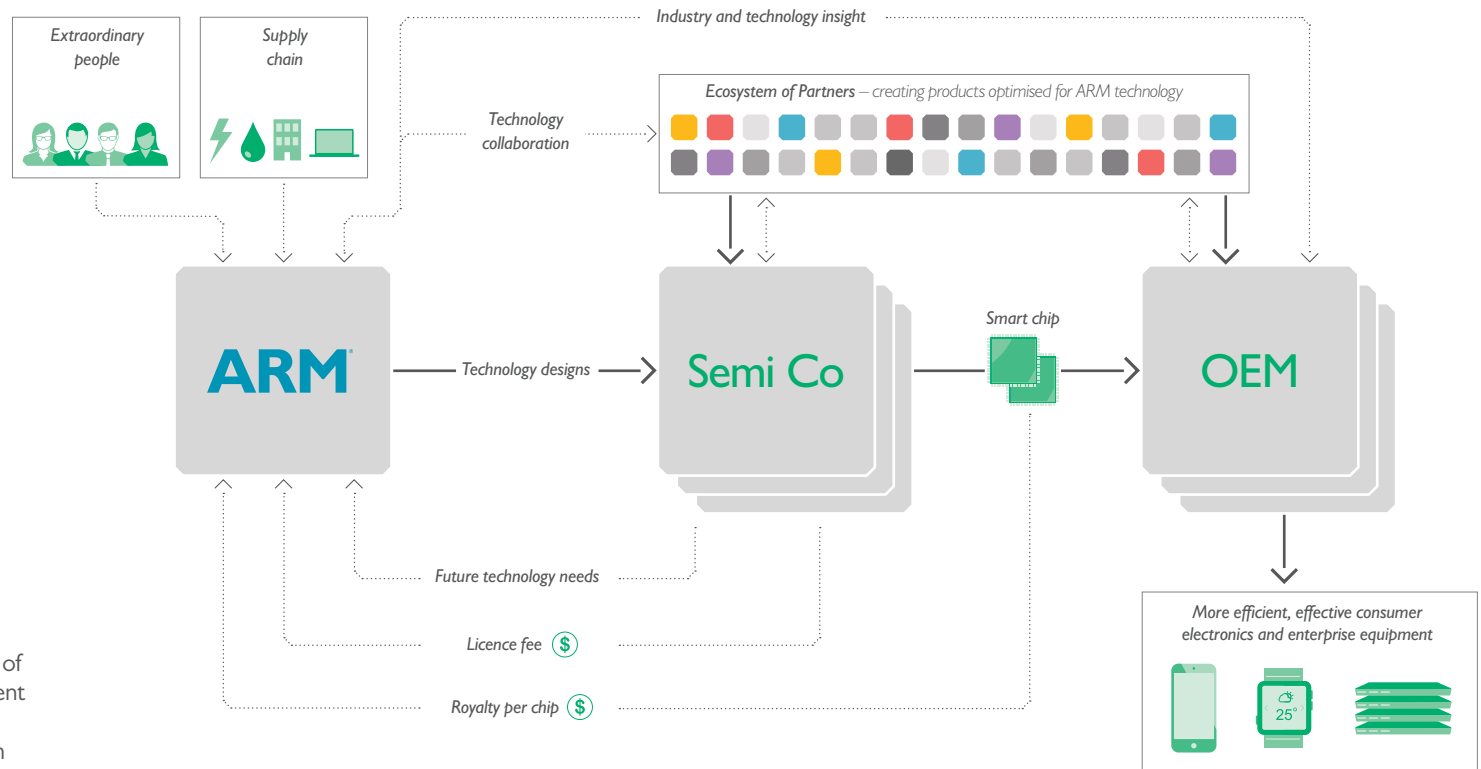
Our business model

Business model

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. Every licensee pays an upfront fee to gain access to our technology designs. They then incorporate our designs alongside their own technology to create smart, energy-efficient chips. ARM receives a royalty on every chip sold that uses one of our technology designs. Typically our royalty is based on the price of the chip.

Each ARM design is suitable for a wide range of end applications and 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.



Key
 — Product delivery
 Knowledge and money

ARM's primary inputs and outputs

Inputs >		Outputs >
<i>Extraordinary people</i>	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.	<i>ARM technology designs</i>
<i>Licence and royalty fees</i>	ARM endeavours to recover the cost to develop each technology from each design's licence fees. ARM balances the need for investment in new technologies with increasing returns to shareholders.	<i>Licence fees and per-chip royalty</i>
<i>Technology collaboration</i>	ARM works closely with other companies within the semiconductor industry to share knowledge, align roadmaps and to develop compatible technologies. This ensures that our mutual customers are more easily able to build their products.	<i>Returns to shareholders</i>
<i>Supply chain</i>	In 2014 ARM spent about £160 million on goods and services essential to our business operations. These were mainly costs related to essential business travel, property management, legal and accounting fees, and IT support and services.	<i>Partners' products aligned with ARM technology</i>
<i>Industry insight and future technology insight</i>	ARM monitors industry trends and shares these trends with other thought-leaders within the industry. This helps ensure that ARM's technologies are suitable for chips going into future consumer electronics and enterprise equipment.	<i>Smoothly running global business</i>
		<i>Next-generation ARM technology shaping a more connected world</i>

How ARM creates value for its Partners

We design complex technology that would be expensive for our Partners' R&D teams to develop. It is more cost-effective for our Partners to license the technology than develop it themselves. The design of a processor or a library of physical IP requires a large amount of R&D investment and expertise. In addition, the creation and development of an ecosystem of software and tools companies that support ARM's technology and its licensees would be difficult to reproduce.

We estimate that a major semiconductor company would need to spend over \$100 million each year to develop and maintain its own architecture. With ARM designing the architecture once and licensing many times, ARM is able to cover its own R&D costs and also reduce the cost for each semiconductor company. ARM's Partners are then able to invest in the complementary technologies that go into a System-on-Chip. This leads to more choice in digital electronics for OEMs and consumers.

How ARM makes money

ARM endeavours to recover its costs from the licence revenues of each technology. Over the medium term, we expect ARM's revenues and profits to grow as our Partners design our technology into a broader range of end markets. Our customers include the world's largest semiconductor companies and their regular royalty payments have become a reliable cash flow.

How ARM creates value for its shareholders

ARM's costs are largely people costs, and the majority of our people are R&D engineers working on future generations of technology. We will continue to invest in R&D, hiring more engineers and investing in productivity tools as new generations of technology become increasingly complex and costly to develop. We have relatively little capital expenditure, or other cash-intensive purchases, and hence our normalised profits after tax convert to normalised cash generated, so the more profits we earn, the more cash we generate.

ARM intends to return cash to shareholders over time through a growing dividend and buying back shares.

Strategy and key performance indicators

Our strategy for long-term growth

ARM's strategy is to develop and deploy energy-efficient technology; to enable innovation through a broad ecosystem of Partners building on our shared success; and to create superior returns for our shareholders by investing in long-term growth.

We achieve this by gaining share in long-term growth markets; by increasing the revenue that ARM receives from each device; and by developing new technologies that can generate additional revenue streams.

 > ARM's strategy may be impacted by the principal risks and uncertainties found on pages 31 to 37.

Our four growth drivers:

Gain share in long-term growth markets



> Read more on page 24

Increase value per smart device



> Read more on page 27

Generate additional revenues from new technology



> Read more on page 28

Invest in long-term growth



> Read more on page 29

Progress on strategy

ARM has achieved over 95% market share of mobile handsets. As other end markets require smarter processors we expect ARM's technology will increase its share of those markets.

As consumer products become smarter they often contain multiple ARM-based chips, including some with our latest technology, 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 aims to create superior returns for shareholders by balancing investment in long-term growth opportunities with increases in profits and cash generation.

Key performance indicators

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

- > Increasing the value that ARM receives for each smart device sold.

- > Developing and licensing new technology to generate additional revenue streams.

- > Investing in ARM's people and systems.
- > Growing normalised profits, EPS, cash generation and dividends.

Principal risks to strategy

1 2 3 4 7



> Read more on pages 33–36

1 4 5 7



> Read more on pages 33–36

1 4 6 7



> Read more on pages 33–36

5 6 7 8 9



> Read more on pages 35–37

Growth driver:
Gain share in long-term growth markets

Principal risks

- 1
- 2
- 3
- 4
- 7

 > Read more on pages 33–36

The Amazon Kindle Paperwhite brings together the pleasures of traditional reading with the convenience of e-reader technology. It is based on the Freescale i.MX 6SoloLite applications processor, which is powered by an ARM Cortex-A9 core.



Key performance indicator

Building the base of licences that will drive future royalties

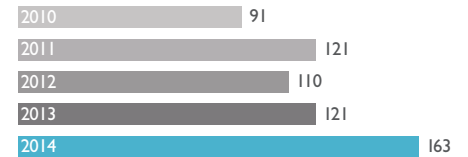
Every licence represents the opportunity for a future royalty stream. In recent years, ARM has added over 100 processor licences per year to its existing base of licences. In 2014, we signed 163 processor licences, taking the licensing base to 1,198 licences. This growth in the number of licences signed 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.

To maximise our share of end markets, our technology needs to be adopted and deployed by the leaders in each end market. ARM has made good progress in 2014 with 58 companies already developing ARM-based chips deciding to license an additional ARM processor, and 38 companies deciding to use ARM technology for the first time.

The future opportunity

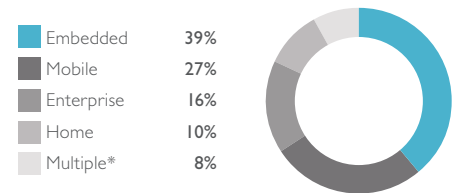
ARM expects that its customers will continue to re-equip their R&D teams with the latest processors for existing product lines. In addition, ARM's technology is becoming increasingly relevant to markets such as enterprise infrastructure and embedded computing, leading to more new customers acquiring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

Number of ARM licences signed



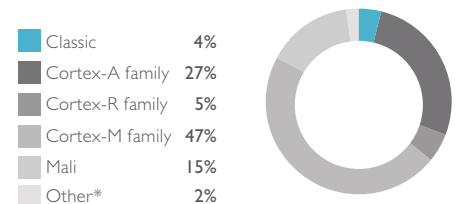
ARM signed 163 processor licences in 2014, taking the total number of processor licences signed to 1,198.

Number of licences signed by end market in 2014



*Companies intending to use ARM technology in multiple end markets.

Number of licences signed by processor type in 2014



*Other includes architecture and subscription licences.

Key performance indicator

Growing the number of ARM-based chips

Electric Imp™ provides an innovative and powerful platform that makes it simple to connect devices to the internet. Electric Imp's proven WiFi-enabled solution has an ARM® Cortex®-M3-based microcontroller featuring fully integrated hardware, software, OS, APIs and cloud services, which dramatically decreases cost and time to market.



In 2014, ARM's customers reported 12 billion chips shipped, a 16% increase over 2013. By comparison, the industry grew 4% 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.

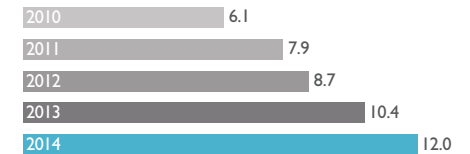
ARM's total market share rose to 37%, up from 35% in the previous year. The mobile phone was the first consumer electronic device where ARM-based chips started to be widely deployed. ARM's Partners sold 5.4 billion chips into mobile devices, driven by the growth in the number of smartphones and mobile computers.

ARM has seen rapid adoption of its processor technology into markets such as enterprise networking and microcontrollers. In 2014, ARM's Partners reported that they had sold 6.6 billion chips into non-mobile applications.

The future opportunity

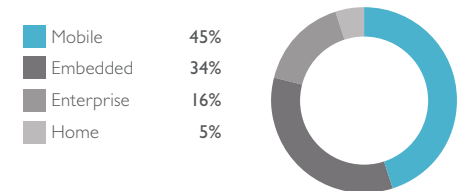
ARM expects its unit shipments and royalty revenues to grow faster than the semiconductor industry as ARM continues to gain market share. Shipments of ARM-based chips are growing rapidly in microcontrollers as several major semiconductor vendors ramp into full production, and also in enterprise networking and energy-efficient servers.

Shipments of ARM processor-based chips (bn)

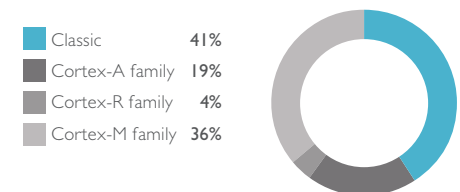


Partners reported 12 billion ARM-based chips shipped in 2014, taking the cumulative number shipped to more than 60 billion.

Chip shipments by end market in 2014



Chip shipments by processor type in 2014**



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

*Source – WSTS, January 2015. Excludes memory and analog chips.

Key performance indicator

Increasing share in target end markets

3G, WiFi or Bluetooth-connected Samsung Gear S keeps consumers connected, with or without a smartphone, featuring a 300mAh battery, 4GB memory, 512MB RAM and Tizen operating system. It is powered by the Qualcomm® Snapdragon™ 400, which is based on an ARM® Cortex®-A7 CPU.



ARM has either a high share or an increasing share in each of its key end markets including mobile phones, enterprise infrastructure and embedded intelligent chips. ARM has announced new technology developments that will enable our customers to improve their competitive position in each of these end markets.

Mobile computing 86%

For many years, smartphones and tablets have used ARM-based chips in most of the applications processors and baseband modems. Some laptops have shipped with ARM-based chips, and in early 2015 ARM introduced new processor designs that will help our customers to be even more competitive in laptops.

Enterprise infrastructure 10%

ARM has seen increased design activity in enterprise networking, with ARM's market share in 2014 doubling over 2013. This is mainly due to ARM-based chips deployed into LTE base stations. With more design wins in mobile and wireline infrastructure, sales of ARM-based enterprise networking chips are expected to ramp gradually over the next few years.

Embedded intelligence 24%

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, which will help our share continue to grow.

The future opportunity

All of these target end markets have promising long-term growth prospects and ARM's market share is either growing or is likely to be maintained at a high level. In addition many of ARM's Partners have announced new products in these areas.

Market share

	Mobile device*	Enterprise infrastructure	Embedded intelligence**
2010	59%	0%	8%
2011	71%	0%	15%
2012	78%	1%	18%
2013	85%	5%	19%
2014	86%	10%	24%

* Main applications processor in a mobile computing device, including smartphones, tablets and laptops.

** Including microcontrollers and smartcards.

Growth driver:
Increase value per
smart device

Principal risks

1 4 5 7



> Read more on pages 33–36

The MiTV 2 is a high-spec, great value smart TV designed by Xiaomi. It has a 49-inch screen, which supports 3D with 4K Ultra HD. This is based on a 1.45GHz quad-core MStar™ 918 SoC integrating an ARM® Cortex®-A9 CPU and an ARM® Mali™-450 GPU processor-based SoC.



Key performance indicator

Increasing the value that ARM receives for each 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.

ARM's royalty per device can increase as devices get smarter. Smarter devices may generate more royalty revenue because they may contain: more chips than basic models; more expensive chips than basic models; and more advanced ARM technology that can deliver a higher royalty per chip.

During 2014, the total number of smartphones sold increased by about 20%*. We also saw sales of ARM-based mobile computers, such as tablets, grow to nearly 300 million*.

ARM's Cortex-A family (based on the ARMv7-A and ARMv8-A architectures) now has more than a 95% share of these smartphone application processors. Cortex-A processors typically command a higher percentage per chip royalty than previous ARM technology. Presently, only a small proportion of chips are deployed with ARM's latest generation of processors based on the ARMv8-A architecture, or with ARM's big.LITTLE™ technology. Generally, both of these technologies result in ARM receiving further increases in the royalty percentage per chip.

The future opportunity

ARM expects that consumer electronic devices will continue to become smarter and that they will incorporate more chips that could be ARM technology-based. ARM also expects that enterprise infrastructure equipment will start to use more highly integrated System-on-Chips which creates an opportunity for ARM's most advanced technology.

In 2015, ARM expects multiple semiconductor companies will start to ship chips incorporating processors designed with its latest ARMv8-A architecture and big.LITTLE™ technology.

ARM typically receives more royalty revenue for a chip using an ARMv7-A-based processor than an ARMv6-based processor. And ARM typically receives an even greater payment for an ARMv8-A-based processor.

Proportion of ARM's latest architecture into smartphones**

	2010	2011	2012	2013	2014
ARMv6	50%	43%	23%	6%	2%
ARMv7-A	50%	57%	77%	94%	89%
ARMv8-A	0%	0%	0%	0%	9%

*Gartner, December 2014.

**ARM's estimates based on customer royalty reports.

Growth driver:
Generate additional revenues
from new technology

Principal risks

1 4 6 7

> Read more on pages 33–36

Key performance indicator

Developing and licensing new technology to generate additional revenue streams

During 2014, ARM continued to develop new technologies that are suitable for licensing to 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 in-vehicle infotainment, media players and navigation devices are emerging.

During 2014, ARM signed 25 Mali multimedia IP licences, and leading technology companies such as Atmel and MediaTek announced computing, mobile and consumer devices incorporating chips based on ARM's multimedia IP. During the year, our Partners reported shipping over 550 million chips containing a Mali graphics processor, up over 35% compared with the previous year.

Physical IP for advanced manufacturing processes

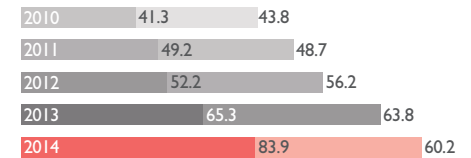
ARM develops physical IP for use by leading semiconductor companies that manufacture chips using advanced manufacturing processes. ARM is the leading physical IP provider and is well placed as semiconductor companies increasingly outsource manufacturing to ARM's foundry Partners.

During 2014, ARM saw strong licensing, especially for advanced processes, signing nine foundry platform licences for ARM's physical IP that will drive future royalty revenues. In addition, ARM signed 15 licences for POP IP (pre-configured physical IP components) which assists Partners in implementing ARM processors. Royalty revenue declined 6% year-on-year due to some companies transitioning to the 20nm node, where ARM chose to develop a limited platform of technology as we expect companies to move rapidly to 16/14nm where ARM has a richer library of physical IP.

The future opportunity

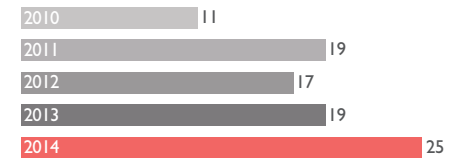
With a growing base of customers just starting to sell their chips in high quantities, we expect that the number of chips enabled by ARM's physical IP and Mali graphics technology will continue to grow in the future.

Physical IP revenues (\$m)



Physical IP licensing/physical IP royalty.

Mali multimedia processor licences signed



ARM signed 25 Mali processor licences in 2014, taking the total number of licences signed to 105.

Growth driver:
Invest in long-term
growth

Principal risks

- 5
- 6
- 7
- 8
- 9

 > Read more on pages 35–37

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.



Key performance indicator

Investing in ARM's people and systems

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 people through hiring a mix of graduates and seasoned industry experts, developing them and providing a supportive culture to maximise their capability and potential.

In 2014, ARM hired a net additional 461 people. The majority of our new hires were engineers to increase our research and development 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 £168 million in 2014, representing 21% of revenues and 13% growth year-on-year. Expenditure on research and development under IFRS was £224 million, representing 28% of revenues and 10% growth year-on-year.

ARM invests in the infrastructure our engineers need to develop and test complex technology, and to liberate and amplify the creativity of everyone in the organisation. In 2014, we commissioned a new data centre in Austin, which hosts some of our development tools and test software.

ARM's investment in developing its people and infrastructure helps to create an environment where everyone can grow and excel, and be rewarded for their contribution. See page 40 for more information.

The future opportunity

ARM expects to continue to invest in its people as we develop our engineering capability and operational execution. As ARM technology is designed into more end markets, we expect the business to generate more profits.

Number of employees at year-end

2010	1,191	1,889
2011	1,382	2,116
2012	1,652	2,392
2013	1,987	2,833
2014	2,370	3,294

Number of engineers/total employees.

Key performance indicator

Growing normalised profits, EPS, cash generation and dividends

ARM's business model and exposure to structural growth markets mean that it is well positioned to grow profits, 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.

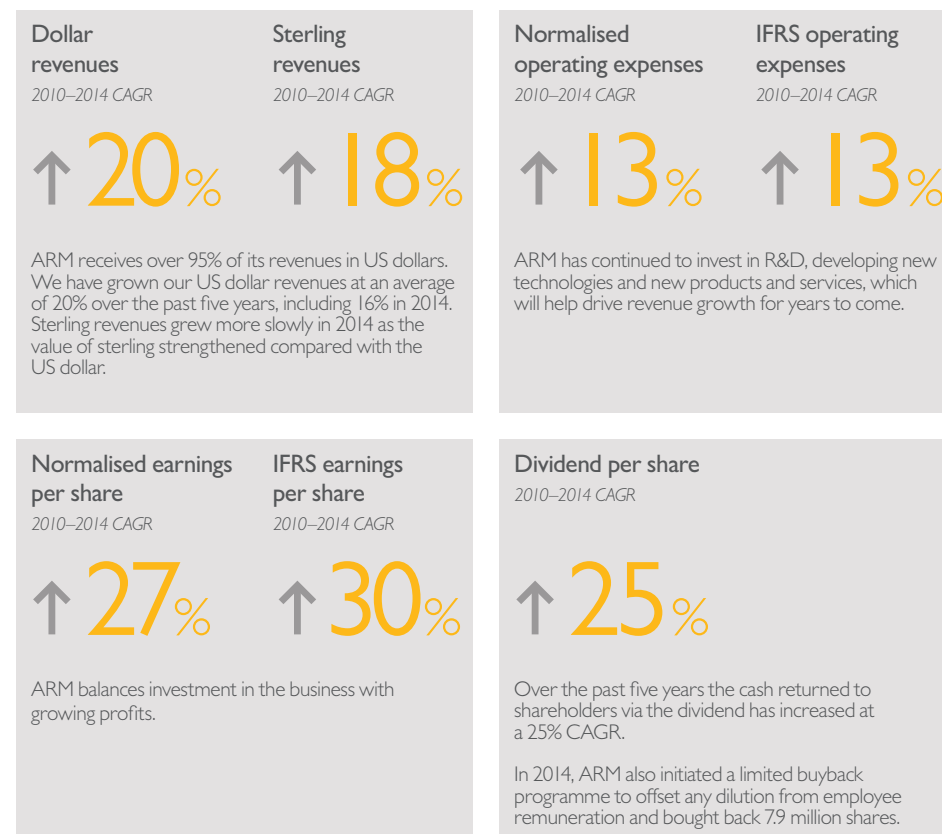
ARM's financial discipline focuses investment in areas of maximum opportunity such as the recruitment of more engineers to develop the next generation of technology. As our customers include the world's largest semiconductor companies, their regular royalty payments have become a reliable cash flow. 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 2014, ARM generated £340 million of cash. The increase in cash generation is primarily due to the increase in revenue. Since 2004, ARM has returned more than £700 million of cash to shareholders through a combination of share buybacks and dividends. In 2014 ARM increased the full year dividend by 23% to 7.02 pence.

The future opportunity

Over the medium term, ARM expects to grow revenues faster than costs, whilst continuing to invest in R&D, and so continue to grow profits, earnings per share and cash returns.

ARM's key financial growth metrics over the past five years



Risk management

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 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 management infrastructure
- ▶ Help executives improve the control and co-ordination of risk taking across the business
- ▶ Ensure that 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 Board and 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 processes in place to provide assurance on 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 and the risk management activities, including operational and oversight activities as defined in the "three lines of defence" model. Residual risks are assessed in terms of likelihood and impact and mapped onto a Risk Heatmap. Further risk mitigation plans are defined to reduce the residual risk if judged necessary. Risk mitigation plans are managed within the relevant objectives of the Group's operations and functions. Risks are identified through senior management discussion (top down) and regular reporting from every part of the business (bottom up).

The 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 2014 on pages 25 to 26. The Audit Committee is responsible for

overseeing the risk management framework and ensuring that the risk review 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 audit plan to provide assurance that the risk management activities identified to mitigate risks are designed and operating effectively and that corrective action is being taken where necessary.








ARM's principal risks and uncertainties

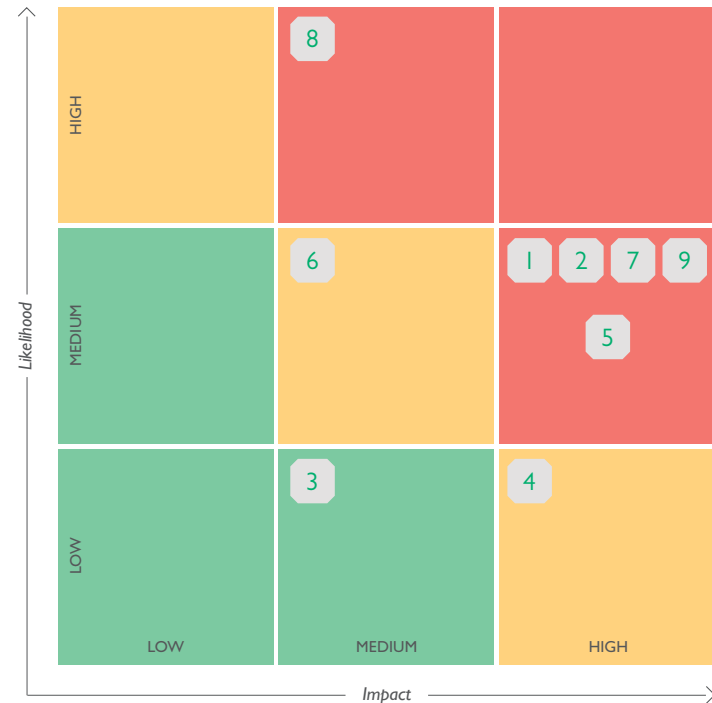
ARM's strategy is to develop and deploy energy-efficient technology; to enable innovation through a broad ecosystem of Partners, building on our shared success; and to create superior returns for our shareholders by investing in long-term growth. ARM's principal risks may impede ARM's progress in executing this strategy. The table on the next page shows ARM's principal risks and which element of the strategy each could impact.

Risk management continued...

	Strategic risks	Primary strategic areas affected	Change in 2014
1	A change in the industry business dynamic may lead to loss of market share and/or reduction in value of IP		
2	A competitor's product or technology may lead to loss of market share		
3	ARM may face challenges managing its business in new geographic markets		
4	ARM's technology may not meet customer requirements in the future		
5	Significant concentration in our customer base may increase the risk to ARM's growth ambitions		
6	ARM's current people, processes and/or infrastructure may not be adequately scalable to meet our growth ambitions		
7	We could suffer significant damage to our brand and reputation		
8	ARM may have to defend itself against third-parties who claim that we have infringed their proprietary rights		
9	Fundamental assumptions that underpin ARM's valuation may be undermined, leading to a sudden depreciation of share price		

Key

-  Gain share in long-term growth markets
-  Increase value per smart device
-  Generate additional revenues from new technology
-  Investing in long-term growth
-  Not materially changed
-  Risk materially increased
-  Risk materially decreased





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 companies within this industry are well resourced and may consider processor and physical IP as attractive markets for them to enter. Start ups and open source technology initiatives could develop alternative ways for companies to design their chips. The cost of developing software is increasing in many end markets, 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

ARM has over 380 Partners, and more than 1,000 companies in its ecosystem. Each company utilises ARM technology in parts of their business, and we meet with leading companies 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 act 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.

Change in 2014

ARM has gained share in key markets such as enterprise infrastructure and the Internet of Things, and retained a high share of application processors in smartphones and tablets. Competition from well-financed companies has continued, and has gained some share in the tablet market.



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, such as the Internet of Things 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. It has developed into a highly competitive market and OEMs have enjoyed a wide choice of chips with 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 invests in this ecosystem to help further reduce the total cost of developing and maintaining a portfolio of ARM-based chips.

Change in 2014

During 2014, ARM's Partners announced advanced new chips based on our latest ARMv8 processors for a wide range of markets including smartphones, tablets, consumer electronics, enterprise networking and servers.

Competitors have announced new alternative processors and chip designs. In 2014, these have seen limited adoption in smartphones, and some adoption in tablets. Longer term they may be able to increase share in both markets.



Risk management continued...



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 and regulatory cultures to the markets in which we are established. In 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 22% 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.

Change in 2014

ARM grew its headcount in Asia (including India) by 15% in 2014, and opened a CPU design centre in Taiwan to work on technology for the Internet of Things.

Industry regulators in some regions have become more actively engaged with domestic and foreign technology companies which can have uncertain outcomes.



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 chips are designed and manufactured, how they are deployed by OEMs and how they are 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

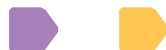
ARM has well-established processes for product specification and development, and we work with thought-leaders within various industries to ensure our technology is suitable for next-generation digital products. We spend some of our R&D budget on long-term programmes to investigate how new scientific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

Change in 2014

ARM's latest processor architecture is now widely adopted, and in 2014 was deployed in consumer electronics and enterprise infrastructure products. ARM introduced several new products during the year, all of which licensed within expectations. We continued to track marketplace developments by working with thought-leaders within the industry, and in adjacent markets.



5



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 further consolidation of companies in the semiconductor sector, 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 over 380 Partners, about half of whom are now paying royalty revenues. Much of our royalty and licence revenues are generated by the top 20 semiconductor companies. ARM typically develops multiple processors each year, reducing the impact of a customer deciding not to license a particular product.

Change in 2014

In 2014, we saw consolidation amongst some of our customers through acquisition in consumer electronics, networking and microcontroller markets, and saw some companies exit the mobile market. This consolidation has resulted in fewer, larger customers, and so an increase in the level of potential risk.

In 2014, 65% of ARM's revenue came from our top 20 customers, down from 68% in 2013. ARM signed 38 new customers mainly in fast-growing markets such as microcontrollers and the Internet of Things.

6



ARM's 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 that 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.

Change in 2014

ARM hired net 383 engineers and 78 supporting staff in 2014, and we extended our office in Taiwan to include more development capability. During the year, we undertook an efficiency and effectiveness programme which took a detailed look at each team and made sure that we had the correct skill set and capability in each area.

Risk management continued...



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. ARM technology is becoming increasingly complex, which could increase the likelihood of a fault or bug.

Mitigation

ARM continues to invest in the verification and validation of its technology. 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 ensure that corrective action can be taken early if customers are becoming less satisfied with our products or behaviour.

Change in 2014

In 2014, ARM opened a new data centre in Austin, Texas, which will be used to increase the testing capability of the Company, so that we can better detect and fix bugs before delivery to customers.



8



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 may assert patent, copyright and other intellectual property rights to our technologies. Any claim brought against us or our licensees could result in substantial costs and we may be bound to indemnify our 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.

Change in 2014

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. ARM is involved in no major patent suits at the time of writing.



9



Fundamental assumptions that 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 each 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.

Change in 2014

In addition to our quarterly results, ARM hosted two investor days during 2014 which gave updates on our progress in new markets such as the Internet of Things and enterprise networking. The content of these events can be found on the ARM website at www.arm.com/ir.

Operational risks

In addition to the strategic risks, ARM closely manages its operational risks. Many of these relate to the execution of the day-to-day running of the business including, but not limited to:

- ▶ Efficient development of new technology
- ▶ Patenting new ideas and inventions
- ▶ Effective project and programme management
- ▶ Exploration into new business opportunities
- ▶ Managing the ecosystem of companies that support ARM technology
- ▶ Ensuring that the business is able to operate its systems and processes, and is able to quickly recover from any failure
- ▶ Ensuring that the business has adequate protection against cyber-attack
- ▶ Timely recruitment and training of employees
- ▶ Management of confidential information and commercially sensitive data

Mitigation

As previously described, operational risks are managed in accordance with the ARM Management System which defines key policies and processes across the organisation. All employees are required to review these policies and processes annually, and training is provided when new procedures are introduced.

Change in 2014

ARM instigated a number of programmes to improve the efficiency of ARM technology development, and to make the business more agile when serving our customers.



Connecting people to their data

SimPrints Biometric Scanner will help improve the lives of people living in regions with poor infrastructure by accurately linking people to their digital records in the delivery of mobile services such as health care, microfinance, and aid distribution. This advanced prototype is powered by a Freescale Kinetis KL0x low-power microcontroller based on an ARM Cortex-M0+ processor. In addition, a low-cost mbed board from Freescale, the FRDM-KL05 which is also based on an ARM Cortex-M0+ processor, is used in the manufacturing process to upload software into the scanner's microcontroller.

Find out more:

www.simprints.com/our-technology



In this section:

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Our people

Shaping the organisation that is connecting the world



Jenny Duvalier
EVP People

ARM's people are our strength for designing the next generation of technology, delivering it to our customers, and for growing and maintaining the ARM partnership. Our business relies on the intelligence, skills and abilities of these highly talented individuals and teams whose creativity and ideas keep ARM the world's leading designer of semiconductor IP. As a result, ARM requires a high-performance, high-engagement organisation where everyone can challenge and encourage each other to reach their full potential.

The organisation works to "Enable the Extraordinary" and ensure that ARM provides a world-class work experience, attracts the best people and facilitates their effective engagement with each other. By focusing on the three components of capability, culture and connection, we help ARM become an increasingly successful business.

ARM's people strategy:

Enabling the Extraordinary

We strive to enable the extraordinary through a comprehensive people strategy that includes:



- ▶ **Capability** Securing our leading position for the future by growing the capabilities of our people



- ▶ **Culture** Delivering a working experience that gives our people a reason to choose to invest their time at ARM, every day



- ▶ **Connection** Inspiring and enabling our people to connect with one another, and create innovative technologies

Key

- Gain share in long-term growth markets
- Increase value per smart device
- Generate additional revenues from new technology
- Investing in long-term growth

Capability

Strengthening the organisation, teams and individuals

Hiring the best people

ARM's headcount has doubled in the last five years. This growth continued in 2014 as net total headcount grew by 461, or 16%. We look to hire the best and brightest individuals who have the capacity to innovate, invent and create new products and designs that will shape our future.

We invest in our employees by hiring a mix of graduates and seasoned industry experts, developing them and providing a supportive culture to maximise their capability and potential. A significant graduate intake (169 in 2014) is a fundamental component of ARM's recruitment practices as it is an investment in the Group's future and enables internal succession.

ARM also engages with young people before they leave education by participating in STEM (science, technology, engineering and mathematics) initiatives globally and offering opportunities for shorter-term work experience. This robust pipeline of talented individuals is vital for our continued growth.

Developing the best people

To sustain our position at the vanguard of the industry, finding and attracting the best people is not enough; we must also provide a flow of attractive and rewarding opportunities for their development and progression. We invest significantly in helping people develop their potential through activities such as coaching, mentoring and on-the-job learning, as well as structured programmes covering technical, functional and leadership skills. This is supported by e-learning and our internal TV channel, ARM TV, which hosts regular educational content and news about the business with nearly 300 videos uploaded during the year. In 2014, about 10,000 training days (60%/40% internal/external) were delivered to maintain a culture of constant growth and ensure our world-class people remain extraordinary.

Culture

Giving our people the best working experience

Engagement

ARM's success is dependent on a highly engaged and productive workforce. ARM regularly conducts an engagement survey and action planning process that provides an opportunity for the business to respond to feedback about the working experiences of our people. In 2014, 82% of the organisation completed the survey; of those, 92% stated they are proud to work at ARM. By comparing our results with similar organisations globally, we found that ARM outperformed the average for other high-technology companies and scored similarly to market-leading companies from a range of sectors.

For 2015 we will go beyond traditional measures by providing feedback on whether our work environment supports productivity, and whether it can maintain it for the long-term. A multi-faceted approach will allow us to sustain our position as a high-performance, high-engagement organisation.

ARM Values

The current set of ARM Values articulate the behaviours which we seek to demonstrate in delivering our work; the Values form an integral part of our performance management process.

ARM has grown rapidly over the years; we have more people, in more countries and across more technology areas. In 2015, through collaboration and consultation with colleagues across ARM, we will re-articulate our Values as a set of core beliefs about ourselves. ARM's identity is part of our organisation's unique essence, supporting our strategic intent, our propositions to customers and colleagues, and providing competitive advantage.

Connection

Enabling colleagues to engage with each other, and with ARM

Events

ARM's business requires frequent collaboration with technologists across a wide range of disciplines, which we facilitate through regular international events. The Global Engineering Conference is attended by one in five of ARM's engineers and provides an opportunity to knowledge-share, problem-solve and network with colleagues. The Global Graduate Conference taught 170 graduates the skills needed to make a smooth transition from academia to business.

ARM's success relies on strong external relationships. Every August, about 600 customers attend the ARM Partner Meeting to improve collaboration and their responsiveness to changing market conditions. In October, 4,000 developers from across our ecosystem assembled for the 10th ARM TechCon event. From industry-leading companies to start ups, TechCon provides a learning environment for developers and engineers who are creating products around ARM's technology.

TeamARM

The ARM corporate responsibility (CR) programme is focused on four areas: education, health, the environment and local communities.

TeamARM is the employee engagement element of ARM's CR approach. Its objective is to encourage employees across our offices globally to raise money and give their time to benefit local communities and wider society. This helps our people build rapport with each other and develop an emotional connection to the business. Introduced during 2014, TeamARM entitles everyone in the business to a minimum of one volunteering day per year, and we aim to reach 20% participation in the programme in 2015.



> More about Team ARM in our CR Report
www.arm.com/reporting2014

Where we operate

Our global presence

389

processor licensees in
20 countries

ARM is listed on the
London Stock Exchange and
NASDAQ in New York

3,294

employees in
18 countries



12_{bn}

ARM-based chips were
reported as shipped
globally in 2014

The majority of ARM's revenues are earned from semiconductor companies that are based all over the world. These companies sell their ARM-based chips to OEMs building consumer electronics, which are also based in all major economies. The OEMs sell their products to consumers and enterprises in every country. ARM's royalty revenues are derived from the chips in these OEM products, and ARM therefore benefits from the growth in all economies and countries around the world. Demand for consumer products has been growing rapidly, especially in emerging markets such as Brazil and China.

ARM has 35 offices in 18 countries. These offices both support local customers and also benefit from the skills and knowledge that have developed in certain regions. For example, our engineers in Scandinavia are specialists in multimedia technologies such as video and graphics processing. During 2014 ARM opened offices in Budapest and Dublin, and expanded its engineering activities in Hsinchu, Taiwan.

>80%

of the world's population
used an ARM-based
product in 2014

Corporate Responsibility

Connecting the ARM Partners to shape a better world

As ARM's technology increases in use around the world, connecting people with their environment in new and exciting ways, so ARM's corporate responsibility (CR) programme expands its reach and impact. Inspired by ARM's business model, the CR programme operates through multiple strategic partnerships. We support transformative projects through a combination of ARM technology, the ARM ecosystem and our people's skills.

Our approach to corporate responsibility takes into account our most material sustainability issues and is shaped by our engagement with a wide range of stakeholders, including our customers, the companies that make up the ARM ecosystem, our employees, our local communities and wider society.

In 2014 we began a stakeholder engagement programme. This process is continual, but work carried out across all aspects of the business has already refined our understanding of our stakeholders' areas of greatest interest. This understanding has helped us to update and simplify the four focus areas of ARM's CR programme: education, health, environment and communities. More information can be found on page 45.

Code Club

Code Club supports volunteer programmers working with primary schools to run clubs that provide an opportunity for children to learn how to code. The clubs are free for children to attend and for schools to host. Code Club brings together volunteers with teachers, schools and venues and provides course materials and projects to be used in the club sessions. The projects teach children how to program by showing them how to make computer games, animations and websites. ARM has been a leading sponsor of this organisation since its inception and will continue to support Code Club as it expands its coverage throughout the UK.




Further information and detailed case studies can be found in our separate CR Report and reporting supplement. These are available for download from www.arm.com/reporting2014.


Corporate Responsibility continued...


ARM's four strategic principles of Corporate Responsibility


The CR strategy is inspired by the ARM business model delivering stronger, long-term charitable partnerships and ensures that clear benefits are delivered back to the business.

Our main principles are:

- 





▶ **Building an ecosystem.** This allows ARM and its Partners to achieve more than they could if operating alone. By developing a shared purpose with our CR Partners, we deliver a bigger impact at lower costs
- 

▶ **Working with other experts in their fields.** Our projects are informed by robust evidence and are driven by the advice and experience of specialists
- 

▶ **Encouraging collaboration amongst Partners through promotion, facilitation and funding.** This enables ARM and our CR Partners to deliver the best solutions in the best possible way, supporting replicable open-source models
- 

▶ **Innovation and creativity** from ARM and our CR Partners enables us to tackle complex problems where solutions are not obvious nor have an established precedent

Key

-  Gain share in long-term growth markets
-  Increase value per smart device
-  Generate additional revenues from new technology
-  Investing in long-term growth

Performance highlights in 2014

Our involvement with member organisations such as the United Nations Global Compact (UNGC) ensures that we are working closely with our industry peers and other leading global businesses, keeping in touch with emerging issues and opportunities. ARM is represented on both the Global Compact LEAD and UK network's advisory boards. LEAD is a group of 50 multi-nationals selected out of over 10,000 UNGC members because of their history of engagement and commitment to corporate responsibility.

We are always looking for ways to improve our systems and processes so that we remain at the forefront of developments and trends in CR. As a result, and taking into account feedback from stakeholders, we have begun a variety of internal projects to improve our systems and processes and to improve our reporting.

As an IP company, we don't have an extensive supply chain of raw materials coming into the business. However, we do purchase a wide range of goods and services from over 900 suppliers. During 2014 we began a process to better understand this supply chain. This year we are reporting some high-level data and during 2015 we will expand our understanding to address supply chain sustainability.

Another significant advance we have made this year has been the adoption of KPIs relating to each of the four CR focus areas. These allow us to measure performance, and ensure that our objectives stay aligned with ARM's strategic vision. Most importantly, these new measures test that we are continuing to deliver our CR strategy effectively and we are communicating transparently.

Measuring the impact

During 2014 we spent time working with our CR Partners to develop an approach to measure and report on the performance of the CR strategy. The primary objective is to be able to determine the impact of projects using a transparent, simple and credible method.

We have adopted a three-tiered approach to measuring and reporting project performance. This expands upon guidance published by the London Benchmarking Group ("From Inputs to Impacts, 2014"). We will be rolling out this approach to all of our major CR Partners in 2015.

The focus areas that matter to us

Education

Our education programme seeks to inspire the next generation of engineers. We have established a connected education programme with our charity CR Partners that takes young people on a journey of learning from the age of nine through to university where the role of CR overlaps with our recruitment activities.

This programme operates on a local, national and international scale. For example, we support national projects in countries where we have offices, but we also support projects to enhance learning opportunities in some of the poorest countries in the world.

During 2014 we continued to deliver great results through our collaborative project with Villiers Park, Smallpeice Trust and Arkwright Scholarships Trust. This four-way partnership is delivering a connected programme taking talented young people from the age of 14 through their core learning and exams and into university. This programme complements other initiatives we are supporting that are designed to inspire young people towards a STEM career. These include projects such as Code Club, a UK national scheme which is designed to teach coding to children aged between 9 and 11. The Design our Tomorrows programme is another excellent example where ARM is partnering with experts at the University of Cambridge Faculty of Education to develop teaching materials for schools. These practical curriculum guides are designed to encourage innovation, engineering and design for ages 10–14 and use social topics

such as care for the elderly, food production and conservation to demonstrate the design and application of technologies such as sensors and IoT. The materials have been designed specifically to engage more girls in the subject whilst remaining just as interesting to boys.

At a worldwide level, in September 2014 we became a Founding Partner of the Global STEM Alliance. This partnership was founded by the New York Academy of Sciences with the objective of “empowering the next generation of scientific Innovators”. Over the next year we will support the Academy to assess how their work can help ARM’s UK Partners and how some of the projects we are working on might be scaled up to deliver global benefits. The Global STEM Alliance also offers our people the opportunity to support students all around the world.

Health

We believe that ARM technology and expertise can make a significant contribution to improving access to affordable health care. Our projects range from supporting health-focused technology start up businesses and marrying them with an established charity such as UNICEF or USAID to deliver impact on a global scale.

Examples of projects that have demonstrated significant potential during 2014 include the collaboration between the Oxford Centre for Affordable Healthcare Technologies and SimPrints, who have developed an affordable and robust way of linking people with their medical records. SimPrints started life at an ARM-sponsored Humanitarian Centre

hackathon in 2013 and won the Cambridge University Entrepreneurs competition. SimPrints also won a prestigious Saving Lives at Birth award in 2014 to fund field trials and is now partnering with Johns Hopkins University and BRAC (a Bangladeshi development organisation) to take its product to Bangladesh.

Environment

Taking a responsible approach to the environment is good business practice as well as essential in helping the world to tackle climate change issues. ARM has a low impact on the environment in relation to the size of its business but we strive to improve our environmental reporting and performance. In addition to minimising our direct emissions, ARM technology can play an important role in reducing global emissions by enabling greater efficiencies in areas such as factory automation and building control. In addition to this, our technology is at the heart of new strategies that will deal with other environmental and resource challenges such as the management of energy grids and water resources.

Progress towards our 2020 targets for reducing carbon emissions and energy consumption slowed in 2014 due to a growth in employee numbers and the size of our global estate. Since the end of 2009 we have achieved a 16% reduction in carbon intensity relative to headcount against a target of delivering a 30% reduction by 2020. Over the same period, our energy intensity based on kWh per employee has decreased by 16% against a target of 15%. Our 2014 Carbon Disclosure Project (CDP) score improved from 75% to 82% for disclosure at performance level C.

Our communities

How we engage, respect, support and work with all our communities is a vital aspect of our business. This includes how we engage not only with our people within ARM but also with the local communities surrounding our offices around the world.

Our communities are not limited to where our people work and live. Our CR programme is global and we are contributing to projects that increase access to technology for the billions of people who currently do not benefit from the social empowerment and wellbeing that it can bring.

Looking forward

Our CR projects help tens of thousands of people each year and we want to do more. In 2015 we will continue to improve our communication about the vital impact the projects we support are having but we will also start to show how we can move from helping thousands of people to improving the lives of millions.

Our full CR Report, prepared in accordance with the Global Reporting Initiative G4 guidelines at the comprehensive level, describes how we are going to do this and gives many case studies and examples. See www.arm.com/reporting2014.

Governance

Governance at ARM



Patricia Alsop
Company Secretary

ARM is committed to good corporate governance, corporate responsibility and the highest ethical standards in all we do.

Corporate governance framework

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

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

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

Last year for the first time we created the Annual Report as two documents, and following positive feedback from shareholders and other interested parties in 2014, we are continuing this approach. This Strategic Report contains an update on ARM's progress during the year, an outline of our approach to governance and summary financial results. The separate Governance and Financial Report gives more detail on governance at ARM and our full accounts. We welcome any further feedback and you can contact us via the Investor Relations website at www.arm.com/ir.

Directors and succession planning

The Board reflects a balance between technology sector, commercial, financial and general business skills, with a highly experienced international team leading the business in both executive and non-executive roles. There are well-defined differences in roles between the executive and non-executive directors. Their combined contributions as an experienced and healthily diverse Board add value to the debate, decision making and development of strategy that are so crucial to the Group's success.

- ▶ International capability was extended in 2014 by the appointment of John Liu to the Board on 1 December 2014. He is based in China and has extensive experience of operating in the burgeoning Asia technology sector
- ▶ We were also very pleased to identify Chris Kennedy as our new Chief Financial Officer. He has more than 20 years of international experience in senior financial roles, most recently at easyJet plc where he has served as Chief Financial Officer and a member of the Board since 2010

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

The roles and specific expertise of the current members of the Board are set out in the "Biographies" section of the Governance and Financial Report.

Diversity of managers

Men	89%
Women	11%

**Diversity of the Board**

Men	78%
Women	22%

**Diversity of the Group**

Men	84%
Women	16%

**Diversity**

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

Development of strategy

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

The Executive Committee develops and implements the strategy approved by the Board. It also ensures that the risks identified through the business planning process, particularly corporate-level risks, are managed and mitigated as far as is possible.

Biographies of the Executive Committee appear on the Group's website at www.arm.com.

Ethics and values

All employees are required to act fairly, honestly and with integrity, and to confirm each year that they have read and understand the Group's Code of Business Conduct and Ethics, a copy of which is published on the corporate website at www.arm.com. The Group has signed the Universal Declaration of Human Rights and has adopted a specific Human Rights Policy within our Code of Business Conduct and Ethics. This is in addition to our existing policies on conflict minerals, business ethics, discrimination and export controls.

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

Corporate responsibility

Full details of our CR strategy and achievements can be found in the main CR Report at www.arm.com/reporting2014 and a summary of highlights from the year is 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, except during close periods. The main channel of communication continues to be through the Chief Executive Officer, the Chief Financial Officer and the VP of Investor Relations. The Chairman, the Senior Independent Director and the other directors are available to engage in dialogue with major shareholders as appropriate. Contact details for the investor relations team can be found on the inside back cover of this report.

Remuneration

ARM's remuneration policy, which was approved by shareholders at the 2014 Annual General Meeting, seeks to align the interests of executive directors, senior management and shareholders, and is structured to enable the Group to attract, motivate and retain the talent required to deliver the business strategy. The approved policy is included at the end of the Directors' Remuneration Report in the Governance and Financial Report.

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

Remuneration

Aligning remuneration with strategy

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.

Linking pay to ARM's strategy and KPIs

ARM's directors are remunerated by base salary, conditional awards under the Long Term Incentive Plan and by a performance-related bonus.

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

KPIs and linkage to bonus targets



Revenue





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



Normalised operating profit

Generate increased returns for shareholders

Key

-  Gain share in long-term growth markets
-  Increase value per smart device
-  Generate additional revenues from new technology
-  Investing in long-term growth

Single figure remuneration

The table below sets out the total remuneration received by each executive director relating to 2014.

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

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

Explanation of single figure remuneration

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

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

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

The bonuses earned during 2014 were paid in full in February 2015. The 2013 bonus was awarded under the former Deferred Annual Bonus (DAB) Plan (which operated for the last time in respect of performance in 2013) and 50% was deferred and will become payable in shares after three years.

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

Share prices applicable to grant and vesting of share awards:

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

2015 fees

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

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

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

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

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

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



Innovating in the data centre

In 2014, leading server manufacturer, HP, shipped the first ARM-based server systems with chips from Applied Micro and Texas Instruments. With ARM-based servers now available, leading software companies Canonical, IBM, Oracle and Red Hat announced roadmaps to support ARM technology.

PayPal has developed a unique approach for analysing real-time server data and producing organised, intelligent results. They used a Texas Instruments (TI) 66AK2Hx processor that integrates eight c66x DSP cores and four ARM Cortex-A15 cores using TI's KeyStone™ II architecture running in HP's Moonshot server platform. With this system, PayPal is able to correlate thousands of event streams and analyse 3 million transactions every second, totalling 25 terabytes in data every hour. This analysis can then be used to detect fraud, system glitches and other anomalous events.

Find out more:
<http://goo.gl/PRA635>

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Financial strategy

Our financial strategy



Tim Score
Chief Financial Officer

At ARM's Annual General Meeting in May 2014, it was announced that I would be retiring in 2015. In the 13-year period since I joined ARM, the Group has had a strategic goal to deliver superior shareholder returns by investing in the long term. To reach our objectives, we have invested in new licensable technology, nurtured the ARM ecosystem and supported our Partners as they take ARM technology into new markets. We have balanced the financial demands of our rapid expansion with the need to deliver returns to our shareholders.





2014 was another year of progress. We expanded our customer base to 389 of the world's most innovative and creative companies, released new products such as the Cortex-M7 and mbed device platform, and funded industry initiatives that will increase the appeal of ARM technology in the enterprise market. We increased the capacity of the organisation by recruiting talented people and delivered a 17% increase in normalised earnings per share (EPS).

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. Figures referred to as "normalised" in this narrative exclude charges relating to amortisation of intangible assets that have arisen on acquisitions; share-based payment charges relating to the issuance of ARM share-based remuneration to employees of the Group; acquisition-related charges; Linaro-related charges; ARM's share of the results in joint ventures; changes in the value of and profit on disposal of available-for-sale investments; restructuring charges; and exceptional items. Reconciliations of normalised costs and expenses to IFRS costs and expenses are shown in tables accompanying this narrative.

ARM's financial strategy:

- ▶  Grow profits through revenue expansion and increased efficiency
- ▶  Invest for the long term in new technologies and our ecosystem
- ▶  Be transparent in dealings with customers, suppliers and tax authorities
- ▶  Manage cash returns, investments and capital for the long-term benefit of shareholders

Key

-  Gain share in long-term growth markets
-  Increase value per smart device
-  Generate additional revenues from new technology
-  Investing in long-term growth

Growing profits through revenue expansion and increased efficiency

During 2014, ARM achieved record dollar revenues of \$1,292.6 million, an increase of 16% over the previous year. 2014 sterling revenues of £795.2 million were up 11% year-on-year.

Licensing revenues reached new highs as more semiconductor companies chose to design ARM technology into their chips. During the year we signed 163 licences with 105 semiconductor companies. Of these, 67 companies were existing customers that upgraded their portfolio of ARM technology; the remaining 38 companies acquired their first-ever ARM processor licence. Total dollar licensing revenues in 2014 were \$580.8 million, up 30% year-on-year.

In the last five years, dollar licensing revenues have grown at a compound annual growth rate (CAGR) of 29%. This growth rate has been driven by our strategy of developing new ARM technologies and nurturing a supportive ecosystem that expands the opportunities for our licensees. This has enabled existing customers to take ARM technology into new areas and encouraged other companies to select an ARM processor for the first time. After this sustained period of accelerated growth in licence revenue, we expect licence revenue growth in full-year 2015 to be consistent with our medium-term guidance for licence revenues.

In 2014, royalty revenues grew 7%, generated from our Partners' sales of more than 12 billion ARM-based chips. This growth was lower than the historical trend because device

manufacturers reduced their inventories of semiconductors in the period, and this impacted chips sales by our licensees. See page 8 for more details. In the last five years, dollar royalty revenues have grown at a CAGR of 20%, outperforming the semiconductor industry's CAGR of 7%.

We expect that our royalty revenue growth will continue to outpace the semiconductor industry over the medium term. The drivers for this outperformance are our ongoing market share gains and the trend for modern devices to use increasing amounts of ARM technology, as outlined in our business strategy (see page 22). In particular, we see opportunities arising from the continued adoption of smartphones around the world; growth in mobile computing; the deployment of ARM processors in servers and networking; and the emergence of the Internet of Things.

A comparison of revenues by revenue stream between 2014 and 2013 is shown in note 2 to the financial statements.

Increasing efficiency

As indicated in last year's Strategic Report, the Group's internal operational structure was re-organised on 1 January 2014, to create an organisation that is more scalable and more accountable, and that offers our customers a more integrated product portfolio. As a result, ARM now has a single product development team reporting into the EVP and President of Product Groups. The re-organisation has meant significantly greater integration of the engineering teams in ARM, with improved co-ordination to deliver a

Selected financial data/IFRS

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Revenues	795.2	714.6	576.9	491.8	406.6
Cost of revenues	(37.8)	(39.3)	(31.9)	(27.7)	(26.1)
Gross profit	757.4	675.3	545.0	464.1	380.5
Total operating expenses before exceptional items	(448.4)	(420.5)	(336.9)	(315.2)	(273.5)
Exceptional items	–	(101.3)	–	–	–
Total operating expenses after exceptional items	(448.4)	(521.8)	(336.9)	(315.2)	(273.5)
Profit from operations	309.0	153.5	208.1	148.9	107.0
Operating margin	38.9%	21.5%	36.1%	30.3%	26.3%
Investment income, net	11.0	13.1	13.6	8.0	3.1
Share of post-tax results in joint venture	(3.5)	(4.0)	(0.7)	–	–
Profit before tax	316.5	162.6	221.0	156.9	110.1
Tax	(61.1)	(57.8)	(60.3)	(44.3)	(24.1)
Profit for the year	255.4	104.8	160.7	112.6	86.0
Dividends paid	86.1	68.9	51.8	42.2	34.3
Capital expenditure	31.3	17.0	33.2	13.0	7.4
Research and development expenditure	224.2	202.9	166.3	165.4	139.7
Cash and cash equivalents, short- and long-term deposits and similar instruments	866.3	713.5	527.6	429.0	291.8
Shareholders' funds	1,528.3	1,311.4	1,206.1	1,061.2	894.9
Employees at end of year (number)	3,294	2,833	2,392	2,116	1,889

Financial strategy continued...

unified product roadmap, aimed at addressing specific market needs. We therefore have only one reportable segment.

Whilst continuing to invest in our business for long-term growth, we also maintain tight controls over costs, looking to achieve operational efficiencies wherever possible. Over the years, ARM's revenues have grown more quickly than costs, giving rise to an increase in normalised operating profits, from £164.3 million in 2010 to £400.3 million in 2014. In the same period, IFRS operating profit rose from £107.0 million to £309.0 million.

Investing in new technologies and in our ecosystem

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 more of their technology needs; it also means that each generation of ARM technology demands a greater engineering effort than the last. Because our products take several years to develop, each new project requires a long-term financial commitment.

At 31 December 2014, ARM employed 2,370 engineers, a 19% increase in the year (2013: 1,987). This represented 72% of ARM's total employees (2013: 70%).

Normalised research and development expenditure in 2014 was £167.8 million (IFRS: £224.2 million), compared with £148.3 million in 2013 (IFRS: £202.9 million), with the increase reflecting our ongoing investment in new technology development.

ARM filed 171 patent applications worldwide in 2014, bringing the total number of patents owned by ARM to over 2,500, with approximately 1,400 patent applications pending.

Nurturing our ecosystem

To ensure that ARM's products offer an attractive value proposition to our Partners, we are in continuous dialogue with semiconductor designers and manufacturers, OEMs and equipment developers, software and hardware tools vendors, and software and training providers. We nurture this ecosystem by providing technical support to our licensees, discussing the long-term needs of chip vendors and device makers, and promoting awareness of our long-term product development roadmap. Each year we hold a technology conference (ARM TechCon) where 4,000 engineers and developers discuss ARM's roadmap and share their knowledge and experience of using ARM technology, whilst discussing their plans for developing future ARM-based products.

ARM invests in industry initiatives to standardise aspects of ARM-based technology. For example, the ARM Server Base System Architecture (SBSA), announced in 2014, ensures that operating system software for servers will be compatible with ARM-based chips from a wide range of suppliers. This enhances the marketability of chips from all our Partners that have chosen to target the server market. Similarly, ARM makes a regular financial contribution to Linaro, a not-for-profit organisation that optimises open-source software for the ARM architecture.

In the year to 31 December 2014, ARM's normalised sales and marketing spend was £81.0 million (IFRS: £93.2 million), compared with £76.7 million in 2013 (IFRS: £89.4 million). The year-on-year increase reflects the increased investment in customer support and marketing activities.

We continue to invest in the IT, HR, finance and legal teams that support the deployment of ARM's technology and in the development of the infrastructure of the organisation. In the year to 31 December 2014, ARM's normalised general and administrative costs were £110.5 million (IFRS: £131.0 million), compared with £101.5 million in 2013 (IFRS: £128.2 million).

Transparency in our dealings with customers, suppliers and tax authorities

ARM treats all customers, suppliers and other third-parties with professionalism, courtesy and respect. Our success is closely aligned with that of our customers and therefore it is in our long-term interest to enter into contracts that are mutually beneficial. ARM aims to pay all suppliers within terms; the weighted average number of days that suppliers' invoices were outstanding at 31 December 2014 was 22 days (2013: 24 days).

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 regularly reviews key developments that may influence the Group's global tax position.

Many governments encourage innovation by offering tax incentives to companies that develop new technologies. ARM uses legitimate tax exemptions and reliefs to minimise its tax liabilities. A large proportion of ARM's products are developed in the UK, where the government offers R&D tax incentives, namely R&D tax credits and the Patent Box, to companies with R&D commitments. On 11 November 2014, the UK and German governments published a joint statement that all preferred IP regimes may only confer benefits to companies that incur the expenditures contributing to the IP income. This will mean that the way in which the UK Patent Box operates will be changing when the new rules are introduced.

ARM also develops technology in the US and France, where the respective governments also offer R&D tax credits. In 2014, ARM's normalised effective tax rate was 16.7% (IFRS: 19.3%), which reflects the benefit of the Patent Box legislation and other R&D credits.

ARM's normalised profit before tax in 2014 was £411.3 million (IFRS: £316.5 million).

ARM's total tax contribution worldwide in 2014 amounted to £145.3 million (2013: £162.5 million), of which £107.0 million (2013: £133.8 million) related to tax collected on behalf of the tax authorities for employee payroll taxes; £30.8 million (2013: £23.3 million) related to corporation taxes; £2.0 million (2013: £1.7 million) related to property taxes; and £5.5 million (2013: £3.7 million) related to other taxes.

Managing cash returns, investments and capital for the long-term benefit of shareholders

ARM's business model is highly cash generative. Since the beginning of 2010, ARM has paid out £283.3 million in dividends, and our net cash balance has grown from £141.8 million to £861.7 million at the end of 2014.

The directors are recommending payment of a final dividend in respect of 2014 of 4.5 pence per share which, taken together with the interim dividend of 2.52 pence per share paid in October 2014, gives a total dividend in respect of 2014 of 7.02 pence per share, an increase of 23% over 5.7 pence per share in 2013. The total cash outflow from dividends paid in 2014 amounted to £86.1 million (2013: £68.9 million).

Since 2010, our dividend has grown at a CAGR of 25%. In 2014, the recommended dividend per share was equal to 29% of our normalised diluted EPS (39% of IFRS diluted EPS).

Subject to shareholder approval, the final dividend for 2014 will be paid on 15 May 2015 to shareholders on the register on 24 April 2015.

At the start of 2014, ARM's total share count was 1.41 billion shares, a similar level to that at the commencement of the rolling share buyback programme undertaken between 2005 and 2008. During that period ARM bought back 213 million shares (being 16% of issued share capital) at a total cost of £261 million. It is our intention to maintain a flat share count over time by offsetting dilution from share-based remuneration with share

buybacks. In 2014, ARM bought back 7.9 million shares at a total cost of £66.9 million.

Acquisitions and investments

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 strategic opportunities to buy in IP rather than developing it internally. Such opportunities can take the form of acquisitions, licensing or acquiring third-party patents, or making investments in start-up companies. In addition to bolstering our IP portfolio, acquisitions large and small have brought many talented people into our organisation.

In 2014, ARM spent £12.6 million on two acquisitions. The larger of these was Duolog, a leader in design configuration and integration technology for the semiconductor industry. Duolog extends ARM's market reach for ARM CoreLink™ Interconnect and Controllers and ARM CoreSight™ debug and trace roadmaps. ARM also acquired Offspark, a company with expertise in digital security.

In 2013, ARM spent a total of £20.0 million on two acquisitions: Sensinode and Geomerics. The technology developed with Sensinode has been integrated into ARM's new mbed OS and mbed device server products that were announced in October 2014.

 > More details on these acquisitions can be found in note 20 to the financial statements.

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	Restructuring £m	Linaro-related charges £m	IFRS £m
2014							
Cost of revenues	35.6	2.2	–	–	–	–	37.8
R&D expenses	167.8	46.9	9.5	–	–	–	224.2
Sales and marketing expenses	81.0	12.0	0.2	–	–	–	93.2
General and administrative expenses	110.5	10.5	0.7	0.7	8.6	–	131.0
Total operating expenses	359.3	69.4	10.4	0.7	8.6	–	448.4
2013							
Cost of revenues	37.2	2.1	–	–	–	–	39.3
R&D 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

Financial strategy continued...

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.

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Profit from operations (per income statement)	309.0	153.5	208.1	148.9	107.0
Intangible amortisation and acquisition-related charges	10.4	11.6	8.8	6.4	11.4
Share-based payment costs and related payroll taxes	71.6	74.0	45.4	57.7	41.9
Restructuring charges	8.6	–	–	–	(0.4)
Profit/loss on sale/impairment of investments	0.7	3.5	0.6	1.8	–
Linaro-related charges	–	7.0	–	6.9	4.4
Exceptional items	–	101.3	–	–	–
Normalised profit from operations	400.3	350.9	262.9	221.7	164.3
Normalised operating margin	50.3%	49.1%	45.6%	45.1%	40.4%
Investment income, net	11.0	13.1	13.6	8.0	3.1
Normalised profit before tax	411.3	364.0	276.5	229.7	167.4
Tax (per IFRS income statement)	(61.1)	(57.8)	(60.3)	(44.3)	(24.1)
Tax impact of above charges	(7.5)	(15.6)	(11.0)	(14.2)	(17.0)
Normalised profit after tax	342.7	290.6	205.2	171.2	126.3
Normalised diluted EPS (pence)	24.12	20.59	14.70	12.45	9.34
IFRS diluted EPS (pence)	17.97	7.43	11.51	8.19	6.36

Analysis of cash and normalised cash flow

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Cash and cash equivalents	54.1	43.8	46.3	26.8	29.4
Short-term deposits and similar instruments	620.8	544.1	340.0	319.1	247.4
Long-term deposits and similar instruments	191.4	125.6	141.3	83.1	15.0
Less: interest accrued	(4.6)	(7.2)	(7.4)	(5.0)	(1.7)
Normalised net cash, at end of year	861.7	706.3	520.2	424.0	290.1
Less:					
Normalised net cash, at start of year	(706.3)	(520.2)	(424.0)	(290.1)	(141.8)
Cash inflow from exercise of share options	(6.8)	(6.0)	(5.6)	(8.5)	(24.0)
Cash inflow from sale of available-for-sale securities	–	–	–	–	(0.1)
Add back:					
Cash outflow from payment of dividends	86.1	68.9	51.8	42.2	34.3
Cash outflow from purchase of own shares	66.9	–	–	–	–
Cash outflow from advance payment to the MIPS patent consortium	–	–	104.5	–	–
Cash outflow/(inflow) from investments and acquisitions (net of cash acquired)	16.9	25.6	(8.8)	17.3	11.0
Cash outflow from investment in joint venture	–	3.7	7.5	–	–
Cash outflow from restructuring payments	5.1	–	–	–	4.5
Cash outflow from other acquisition-related payments	4.3	4.6	3.8	3.1	–
Cash outflow from share-based payroll taxes	8.5	16.3	14.4	12.4	3.2
Cash outflow from payments related to Linaro	3.5	3.5	3.5	3.4	2.7
Cash outflow from IP indemnity and similar charges	–	41.8	–	–	–
Normalised net cash generation	339.9	344.5	267.3	203.8	179.9

From time to time, ARM enhances its patent portfolio by acquiring rights to third-party IP. In the first quarter of 2014, ARM took full ownership of the patent portfolio developed by MIPS Technologies Inc., acquiring the rights it did not already have for \$4 million. This acquisition resulted in an adjustment to the carrying value of that portfolio; ARM's 2013 IFRS accounts include a non-cash exceptional charge of £59.5 million relating to that adjustment. The 2013 accounts also include an exceptional charge of £41.8 million relating to the acquisition of another patent portfolio and the indemnification of a licensee's legal costs relating to that patent portfolio.

More details on the exceptional items can be found in note 6 to the financial statements.

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 2014, ARM's investment portfolio was valued at £23.7 million (2013: £13.9 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. Total cash, cash equivalents, deposits and similar instruments were £861.7 million net of accrued interest of £4.6 million as at 31 December 2014 (2013: £706.3 million net of accrued interest of £7.2 million).

ARM's treasury policy on currency risk is to reduce the Group's exposure to foreign exchange fluctuations by matching assets with liabilities wherever possible. Since the majority of the Group's revenues are earned in US dollars, the Group enters into contracts to sell US dollars for sterling in order to match US dollar cash inflows. This is achieved by using a mixture of spot trades, forward contracts and currency options.

The Group holds the majority of its cash in sterling in order to reduce foreign exchange risk. Funds are typically invested into a combination of term deposits and other similar low-risk instruments. ARM places money with banks with the higher Moody's or Fitch credit ratings and the larger UK building societies, and each institution may only hold a limited percentage of the Group's total cash. Counterparties are all approved in advance by the Board.

Net investment income was £11.0 million for 2014 compared with £13.1 million in 2013. The decrease is due primarily to the lower interest rates available on cash deposits in 2014.

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 85, 97 and 103 of the Governance and 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 31 to 37. 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 2014, 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.

Tim Score

Chief Financial Officer

Financial tables

Consolidated income statement

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

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

Consolidated balance sheet

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

Glossary

Key terms explained

Apps	Application software that runs within the chip.		
ARMv8	Latest family of ARM processor designs.	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.
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.	Mali	ARM's family of specialist multimedia processors including 3D graphics, video and display technologies.
CAGR	Compound annual growth rate.	Microcontroller (MCU)	A microcontroller is a general-purpose computer chip which can be used in many applications. Most ARM processors are used in either an SoC or an MCU.
Cortex	Family of ARM processors.	Original equipment manufacturer (OEM)	An OEM manufactures consumer products such as TVs or mobile phones. For example Apple, HTC or LG.
DTV	Digital TV.	Partner	A Partner is a licensee of ARM's processor technology.
Ecosystem	Community of companies that work with ARM, including semiconductor companies, foundries, OEMs and software providers.	Physical IP	Design of the building blocks used in the implementation of an SoC design.
Fabless semiconductor company	A fabless semiconductor company designs computer chips. These chips are typically manufactured by a foundry. For example MediaTek, Marvell and Qualcomm.	POP IP	Physical IP components that have been selected and optimised to implement a processor on a specific foundry's manufacturing process.
Foundry	A foundry is a specialist company that manufactures computer chips on behalf of fabless semiconductor companies. For example TSMC and UMC.	Processor	Design of the brain of the computer chip.
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.	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".
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.	STB	Set-top box.
Licence	A licence is a legal agreement that confers certain rights to our Partners. They pay an upfront fee, which is reported as "licence revenue".	System-on-Chip (SoC)	An SoC is a computer chip where multiple functions have been integrated into a single chip. Most ARM processors are used in either an SoC or MCU.

Contact details

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

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Auditors' statement

The auditors' report on the financial statements and the auditors' statement under section 496 of the Companies Act on whether the information given in Strategic Report and Directors' report (for the financial year ended 31 December 2014) is consistent with the Group financial statements were both unqualified and can be found on page 62 of the Governance and Financial Report.

For all other enquiries please contact one of ARM's investor relations team:

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