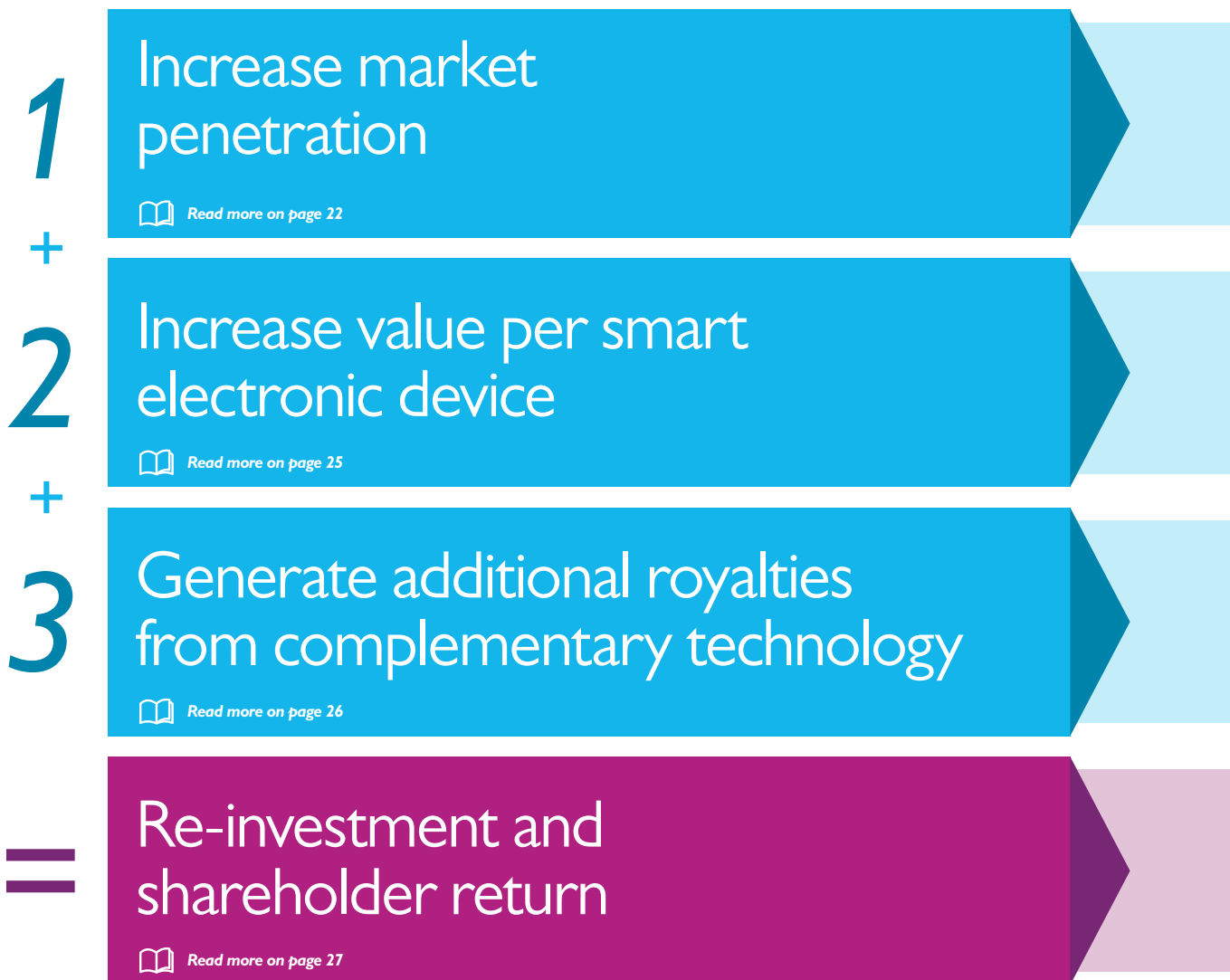


STRATEGY AND KEY PERFORMANCE INDICATORS

# OUR STRATEGY FOR LONG-TERM GROWTH

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

Our three growth drivers:



**Progress against strategy**

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

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

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

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

**KPIs**

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

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

- 
- ▶ Developing and licensing new technology to generate additional royalty streams.

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

# 1 Increase market penetration

## KPI

# BUILDING THE BASE OF LICENCES THAT WILL DRIVE FUTURE ROYALTIES

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

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

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

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

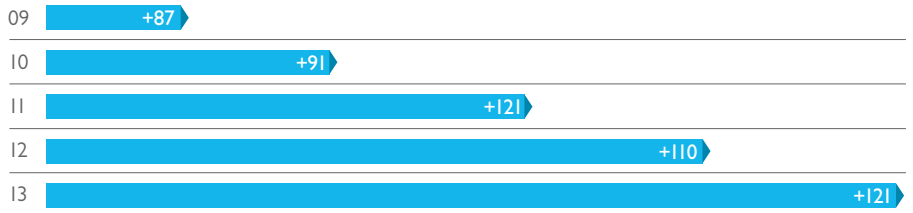
### The future opportunity

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

The Samsung Chromebook delivers outstanding and hassle-free performance at an affordable price. As of May 2013, the Samsung ARM Chromebook has led Amazon's list of best-selling laptops. It is based on the Samsung Exynos 5 Dual system-on-chip, which is powered by a dual-core ARM Cortex-A15 processor and a quad-core ARM Mali-T604 GPU.



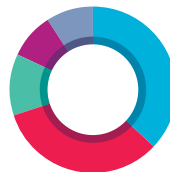
### ARM licences



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

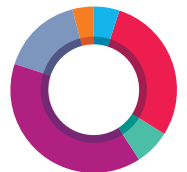
### Number of licences signed by end market in 2013

Embedded	37%
Mobile	33%
Enterprise	12%
Home	9%
Multiple*	9%



### Number of licences signed by processor type in 2013

ARM7/9/11	5%
Cortex-A family	29%
Cortex-R family	7%
Cortex-M family	39%
Mali	16%
Other**	4%



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

\*\*Other includes architecture and subscription licences.

KPI

# GROWING THE NUMBER OF ARM-BASED CHIPS

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

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

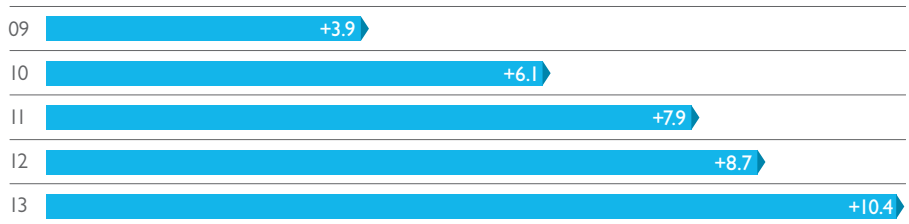
ARM has been seeing rapid adoption of its processor technology into markets such as digital TVs and microcontrollers. In 2013, for the first time, ARM's Partners sold more chips into non-mobile markets than into mobile devices. Overall they sold 5.6 billion chips into non-mobile applications.

**The future opportunity**

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

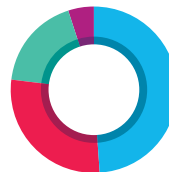
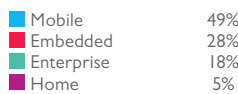
\* Source – WSTS, January 2014. Excludes memory and analog chips.

Shipments of ARM processor-based chips (bn)

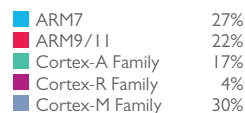


ARM Partners reported the highest ever number of ARM-based chips shipped in 2013.

Chip shipments by end market in 2013\*



Chip shipments by processor type in 2013\*



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

**KPI**

# INCREASING MARKET PENETRATION IN TARGET END MARKETS

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

**Mobile phones >95%**

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

**Enterprise networking 5%**

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

**Digital TVs 50%**

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

**Microcontrollers 22%**

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

**The future opportunity**

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

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



**Market penetration**

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

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

# 2 Increase value per smart electronic device

## KPI INCREASING THE VALUE THAT ARM RECEIVES FOR EVERY SMART DEVICE SOLD

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

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

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

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

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

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

### The future opportunity

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

\* ARM estimates.  
\*\* WSTS, January 2014.

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



ARM value per mobile phone (indexed to 2009)



ARM royalty per mobile phone has continued to increase.

# 3

Generate additional royalties from complementary technology

## KPI

# DEVELOPING AND LICENSING NEW TECHNOLOGY TO GENERATE ADDITIONAL ROYALTY STREAMS

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

### Multimedia IP for 3D gaming and HD video

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

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

### Physical IP for advanced manufacturing processes

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

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

### The future opportunity

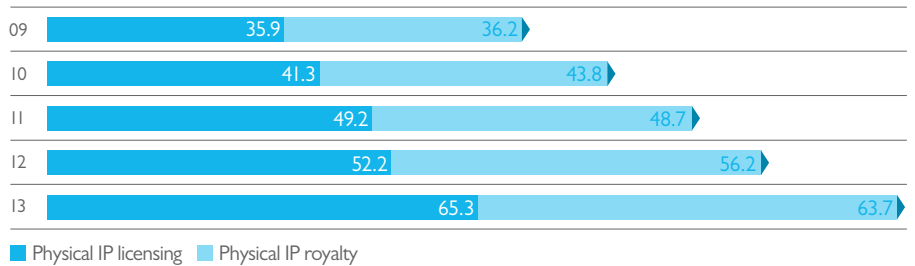
With a growing base of customers just starting to sell their chips in high quantities, we expect that the number of chips enabled by ARM's physical IP and Mali graphics technology will continue to grow in the future.



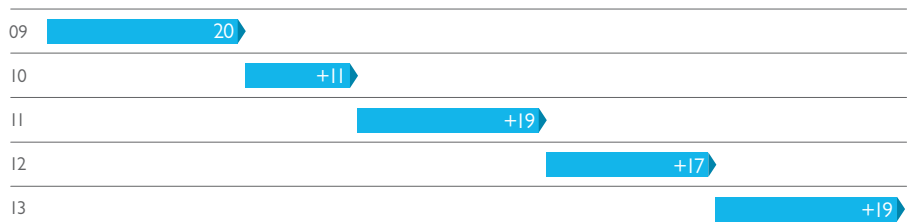
The new Samsung Galaxy Note 3 has been developed as the ideal device to help you stay on top of your busy life. It is based on the Samsung Exynos 5 Octa (5420) system-on-chip, which is designed using the ARM big.LITTLE technology, featuring quad-core ARM Cortex-A15 processor running at 1.9GHz and quad-core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



Physical IP revenues (\$m)



Mali graphics number of licences signed



Reinvestment and shareholder return

KPI

# INVESTING IN ARM'S PRODUCT DEVELOPMENT AND DEPLOYMENT CAPABILITY

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

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

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

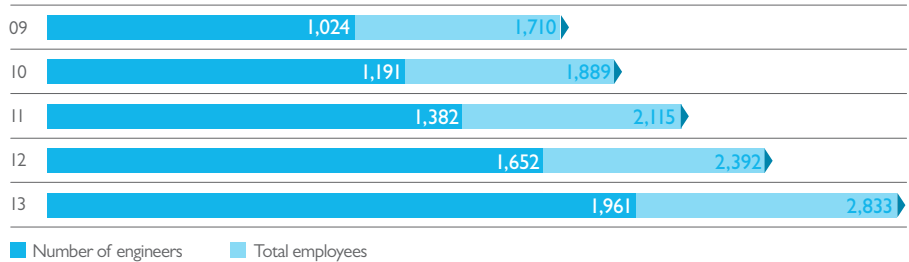
As a result of this investment, normalised expenditure on research and development rose to £148 million in 2013, representing 21% of revenues and 11% growth year-on-year. Expenditure on research and development under IFRS accounting was £203 million, representing 28% of revenues and 22% growth year-on-year.

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

**The future opportunity**

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

Number of employees at year-end





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

## KPI

# GROWING NORMALISED OPERATING MARGINS, EPS, CASH GENERATION AND DIVIDENDS

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

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

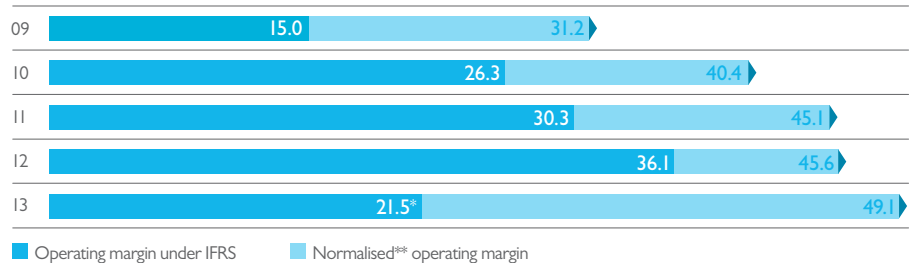
During 2013, ARM generated £344.5 million of cash, up 29% over the prior year.

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

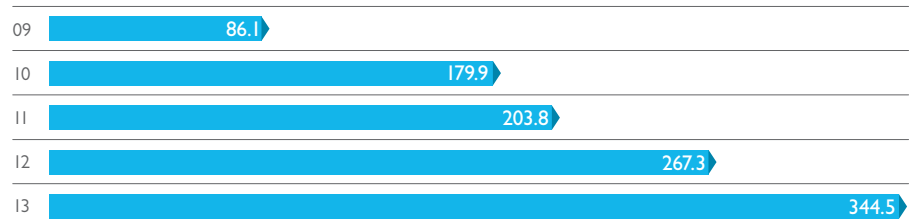
### The future opportunity

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

### Operating margin (%)



### Normalised net cash generation\*\*\* (£m)



\* Including exceptional items of £101.3 million.

\*\* Normalised figures are based on IFRS, adjusted for acquisition-related charges and charges relating to amortisation of intangible assets (other than goodwill) that have arisen on acquisitions, share-based payment costs, profit or loss on disposal and impairment of available-for-sale investments, restructuring charges, share of results in joint venture, Linaro™-related charges and exceptional charges.

\*\*\* Normalised net cash generation is defined as movement on cash, cash equivalents, short-term and long-term deposits, adding back dividend payments, investment and acquisition consideration, other acquisition-related payments, share-based payroll taxes, payments to joint venture and Linaro, advance payment to the MIPS patent consortium and payments for IP indemnity and similar charges, and deducting inflows from share option exercises.

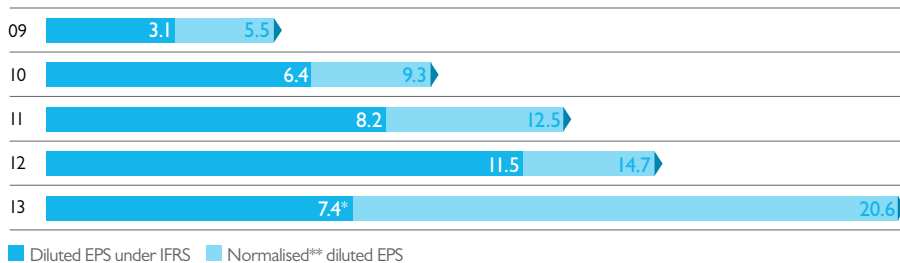
↓ IFRS Operating Margin  
**21%**  
 Includes exceptional items of £101 million.

↓ IFRS EPS  
**7.4p**  
**-35%**  
 Includes exceptional items of £101 million.

↑ Normalised net cash generation  
**£345m**  
**+29%**

↑ Full Year Dividend  
**5.7p**  
**+27%**

Earnings per share (pence)



Dividend per share (pence)

