

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

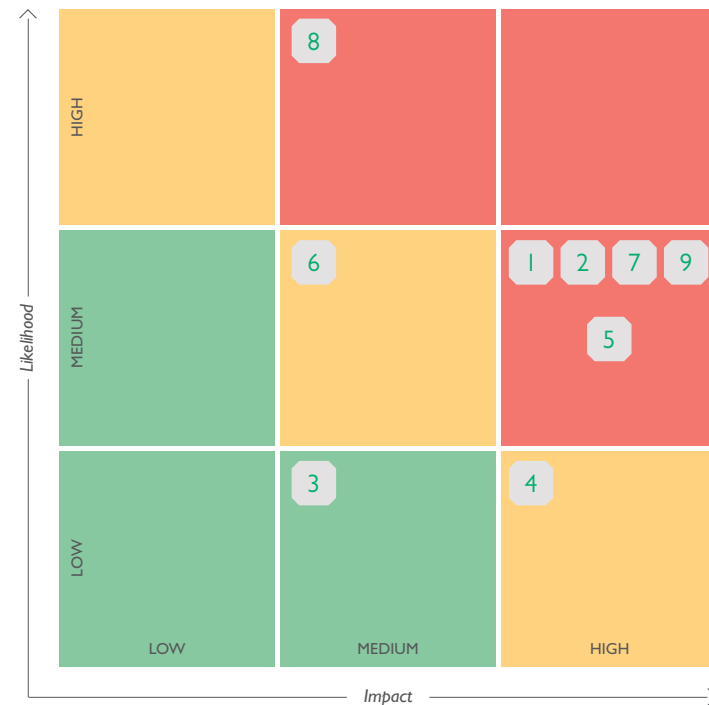
ARM's strategy is to develop and deploy energy-efficient technology; to enable innovation through a broad ecosystem of Partners, building on our shared success; and to create superior returns for our shareholders by investing in long-term growth. ARM's principal risks may impede ARM's progress in executing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



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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.

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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.



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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.



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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.