We shape the connected world

ARM

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

Automotive autonomy

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

Generating energy effectively

Wind turbines and solar panels can be made more effective by including technology that controls and monitors the wind turbine, and aggregates data across the entire wind farm.

Wearable technology

Smart watches, biometric-monitors and augmented reality headsets are intelligent, connected devices that can give us extra information to improve our health and wellness, or just to help us have more fun.

Mobile computing

ARM-based mobile computers, including smartphones, tablets and some laptops are, for many people, the primary device for their work, whether in an office or on the road; for researching and writing school assignments; and for engaging with friends.

Smart city streets

City infrastructure from street lights to car parking meters can be made more effective by embedding intelligent chips. Street lights that can dim when no one is nearby will save energy and reduce carbon emissions, and prognostics in the lighting system can detect faults before they occur, thereby reducing maintenance costs and improving reliability.

Intelligent networks

Broadband and mobile phone network speeds are increasing, and latency decreasing, enabling new services for operators to provide to consumers and enterprises, from delivering more movie and TV options to collating and analysing data from sensors.
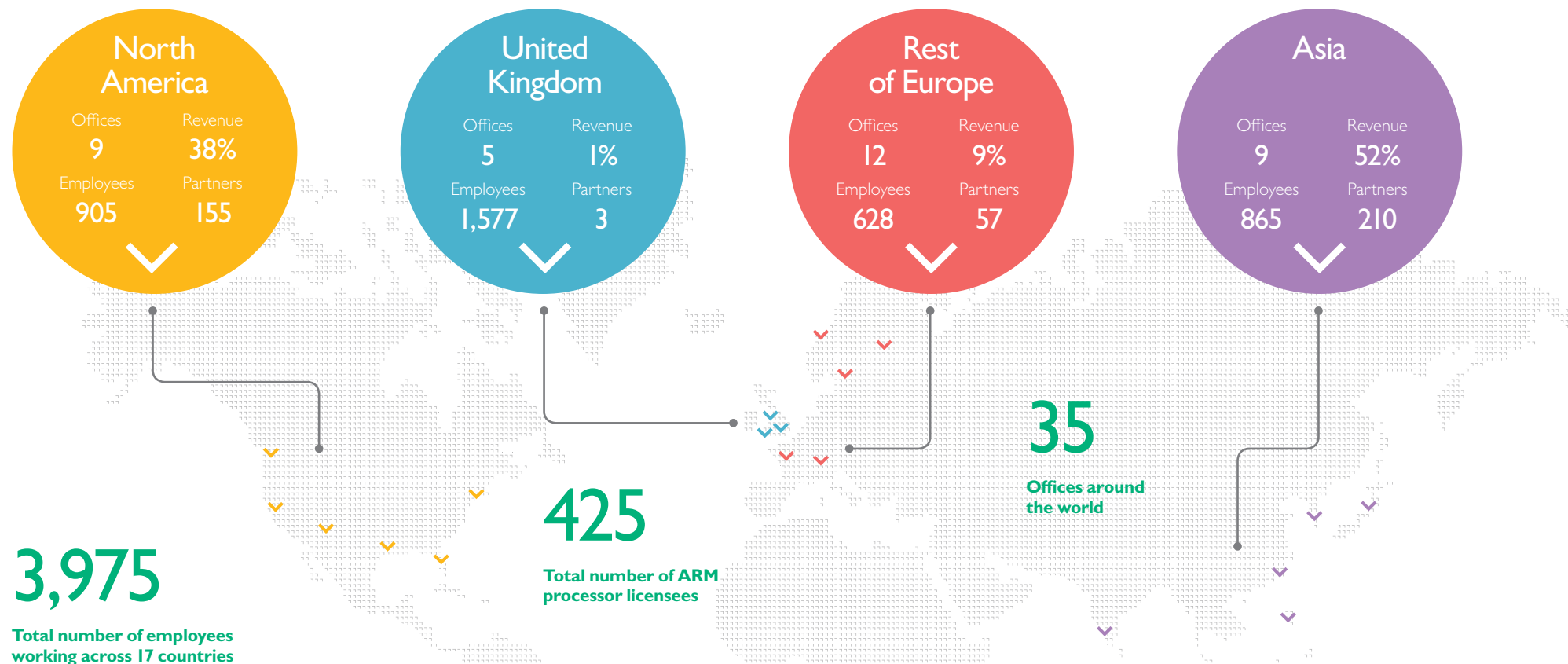
Smarter homes

Cost-efficiency in the home can be improved through learning thermostats that understand your daily routine, domestic appliances that use advanced algorithms for calculating water and detergent requirements, and smart meters that give information on energy usage, allowing the householder to make better decisions.

We work with our Partners across the globe to help shape the connected world

North America
Offices	Revenue
9	38%

Employees	Partners
905	155

United Kingdom
Offices	Revenue
5	1%

Employees	Partners
1,577	3

Rest of Europe
Offices	Revenue
12	9%

Employees	Partners
628	57

Asia
Offices	Revenue
9	52%

Employees	Partners
865	210

35
Offices around the world

3,975
Total number of employees working across 17 countries

425
Total number of ARM processor licensees

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 electronic device manufacturers, 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. We continue to see strong demand for consumer electronics products, and digital technology in enterprise equipment and industrial applications.

ARM has 35 offices in 17 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 2015 ARM opened offices in Deerfield, Florida, and Chandler, Arizona, and, in collaboration with a joint venture partner, opened an IoT incubation centre in Beijing.

ARM Holdings plc
Strategic Report 2015

The Governance and Financial Report explains the way we operate, our approach to corporate governance, how we remunerate management and our financial performance for 2015. A copy of the Governance and Financial Report can be downloaded from: **www.arm.com/governance**

The Corporate Responsibility Report outlines our approach to investing in sustainability and projects to enable more energy efficient technology, and how we attract and develop smart and innovative employees. A copy of the Corporate Responsibility Report can be downloaded from **www.arm.com/reporting2015**

The Investor Relations website contains more information on what ARM does and how we connect with some of the world's most innovative companies to shape the future of technology. Here you will find our latest financial results and recent case studies of ARM technology in action. The Investor Relations website can be found at **www.arm.com/ir**

Non-financial highlights
ARM technology was in around 32% of the chips used in all the smart electronic devices sold in 2015*

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

1,348 Active licences

Building the base of licences that will drive future royalties

In 2015 ARM signed 173 licences, taking the number of active licences to 1,348.
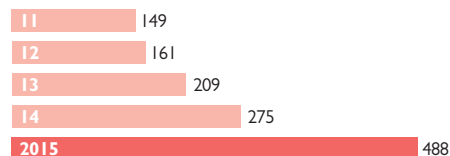
Number of ARM licences signed

11	121
12	110
13	121
14	163
2015	173

15bn Chips shipped

Increasing share in target end markets

ARM Partners reported that they had shipped around 15 billion ARM-based chips in 2015, taking ARM's share of the market to around 32%.

Market share (%)

11	22
12	24
13	28
14	30
2015	32

50% Smartphones with our latest architecture, ARMv8-A

Increasing the value of ARM technology in smart devices

Some of the new technology that ARM has created can generate a higher royalty per chip.

ARMv8 penetration into smartphones (%)

11	0
12	0
13	3
14	15
2015	50

488 Engineers working on "blue sky" programs

Engineers researching new types of products

Most of ARM's engineers are developing products extending our current product portfolio, with 488 working on new types of products.
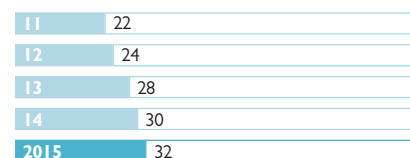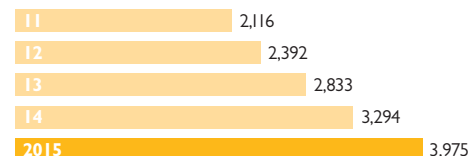
Engineers working on new types of products

11	149
12	161
13	209
14	275
2015	488

+681 Net new employees

Investing in ARM's people and systems

ARM grew by 681 net new employees in 2015, taking the total to 3,975.

Number of employees

11	2,116
12	2,392
13	2,833
14	3,294
2015	3,975

74 ARM's increasing DJSI score

ARM's increasing DJSI score

reflects that our sustainability programme is recognised as aligned with the best practices in the industry.

DJSI score

11**	0
12	53
13	61
14	69
2015	74

**ARM entered the Dow Jones Sustainability Index (DJSI) in 2012.

*In 2015, ARM restated the available market for our technology, as the opportunity is now larger than that described in the 2014 annual report. By making the market size larger, this has reduced our market share in 2015. Details of the restatement can be found in the presentation of our full year 2015 results, available at www.arm.com/ir.
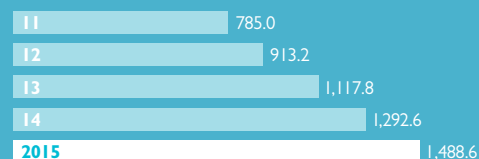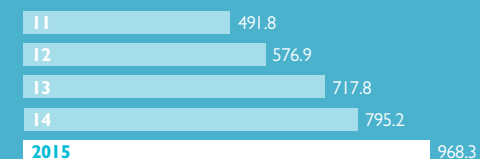
Financial highlights
Shaping a platform for growth

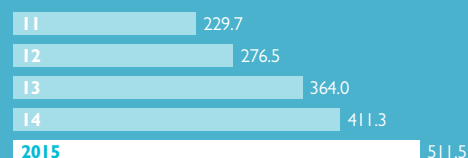We create returns for our shareholders by investing in long-term growth opportunities.
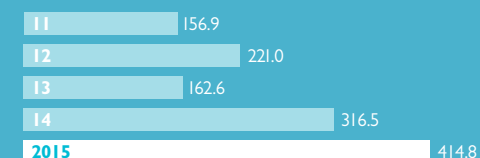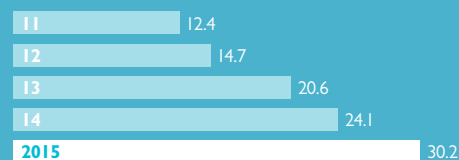
Dollar revenues ($m)

11	785.0
12	913.2
13	1,117.8
14	1,292.6
2015	1,488.6

Sterling revenues (£m)

11	491.8
12	576.9
13	717.8
14	795.2
2015	968.3

Normalised* profits before tax (£m)

11	229.7
12	276.5
13	364.0
14	411.3
2015	511.5

IFRS profits before tax (£m)

11	156.9
12	221.0
13	162.6
14	316.5
2015	414.8

Normalised* diluted earnings per share (pence)

11	12.4
12	14.7
13	20.6
14	24.1
2015	30.2

IFRS diluted earnings per share (pence)

11	8.2
12	11.5
13	7.4
14	18.0
2015	23.9

Normalised Net Cash Generated (£m)

11	203.7
12	267.3
13	344.5
14	339.9
2015	360.7

Cash returns to shareholders (£m)

☐ £m dividend   ☐ £m buybacks

11	42.2	
12	51.8	
13	68.9	
14	86.1	66.9
2015	107.8	92.2
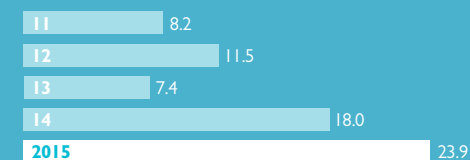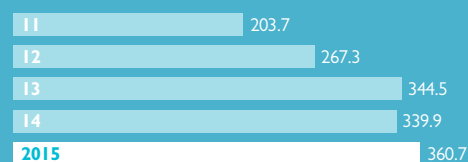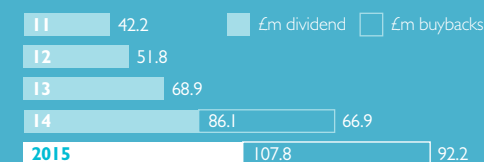
* An explanation of "normalised" can be found at the beginning of the section "Our financial strategy", page 55.

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 electronic devices sold each year, from sensors to smartphones to servers. ARM's energy-efficient microprocessor technology is helping to shape the world we live in. Smart chips are digitally connecting people with each other and also with the connected products that we use every day, creating a network of intelligent devices that enables us to get things done more quickly and easily. We have embraced the rapid pace of change in this increasingly 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 2015 our customers reported that they had shipped around 15 billion ARM-based chips, an increase of 23% on the prior year. 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 networking infrastructure and embedded intelligent devices such as microcontrollers and chips for the Internet of Things. ARM also signed 173 new processor licences which will underpin royalty revenues for years to come.

ARM has performed strongly in 2015. Group dollar revenues increased by 15% and normalised diluted earnings per share by 25% to 30.2p (IFRS: 33% to 23.9p). The Board has recommended an increase in the full year dividend for 2015 of 25%, demonstrating the Board's confidence in ARM's long-term growth opportunities, and, during the year, approved the buyback of 9.0 million shares.

During the year, ARM announced that it is accelerating its investment into developing technologies for networking infrastructure, servers and the Internet of Things. These are all rapidly growing markets, and by investing now we can increase ARM's opportunity in future years, securing greater long-term returns for shareholders. The Internet of Things will drive demand for a huge number of smart sensors and chips, and we will work closely with our Partners to ensure that many of these are ARM-based. The growth rate and size of the market are still uncertain; nevertheless we believe that this is an exciting opportunity that will benefit ARM today and in the future.

$1,489m
Dollar revenues
+15%

30.2p
Normalised
EPS growth
+25%

8.78p
Dividend growth
+25%

Board changes

As announced in 2014, Tim Score, ARM's Chief Financial Officer, retired in June 2015. Chris Kennedy has been appointed as CFO and joined the Board of ARM Holdings plc as a director from 1 September 2015. Chris brings to ARM more than 20 years of international experience in senior finance roles in a broad range of sectors, most recently at easyJet plc where he has served as CFO and member of the Board since 2010. Prior to easyJet Chris worked at EMI plc.

Lawton Fitt and Stephen Pusey both joined the Board on 1 September 2015 as independent non-executive directors. Stephen has many years of experience managing global technology companies, including Vodafone Group plc from which he recently retired as Chief Technology Officer. Lawton has deep financial experience, having held a broad range of board positions, and was previously a partner at Goldman, Sachs & Co.

Kathleen O'Donovan, senior independent non-executive director and chair of the Audit Committee, retired from the ARM Board in December 2015, having completed nine years' service. Lawton Fitt has replaced Kathleen as chairman of the Audit Committee; and Andy Green is now the senior independent director.

On behalf of the Board, the management, and the wider team, we thank Tim for service throughout his 13 years as CFO at ARM, Kathleen for her nine years, including chairman of the Audit Committee and senior independent director, and we welcome Chris, Lawton and Stephen to the Board.

The above changes are consistent with our aim of having a Board with the right balance of skills and expertise. Together we have refined ARM's strategy for increasing investment over the next few years in order to accelerate future market share.

Finally, I would like to thank all of ARM's employees for their effort and contribution in 2015. I look forward to seeing ARM continue to develop new technology that will shape the future for our increasingly connected world.

Stuart Chambers
Chairman

By investing now we can increase ARM's opportunity in future years, securing greater long-term returns for shareholders.

ARMv8-A

Next generation phones will be both aware of their location and context (i.e. home, office, school, etc.).
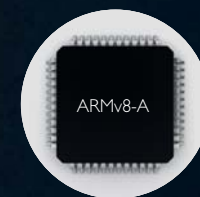
Around 50% of smartphones sold in 2015 contained an ARMv8-A based processor.

Faster connectivity and reduced latency will enable new services.

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 electronic 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. Over many years 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; whilst some companies, such as ARM, 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 programmes 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 2015
In 2015, approximately 750 billion silicon chips were manufactured.* Of these, some 47 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 2015 was about $115 billion, and that by 2020 the value of this market will have grown to about $150 billion.

ARM processor designs were in around 15 billion chips, a 32% market share. About 45% of the ARM-based chips went into mobile devices. In recent years we have also started to gain share in important growth markets such as networking infrastructure and embedded intelligence.
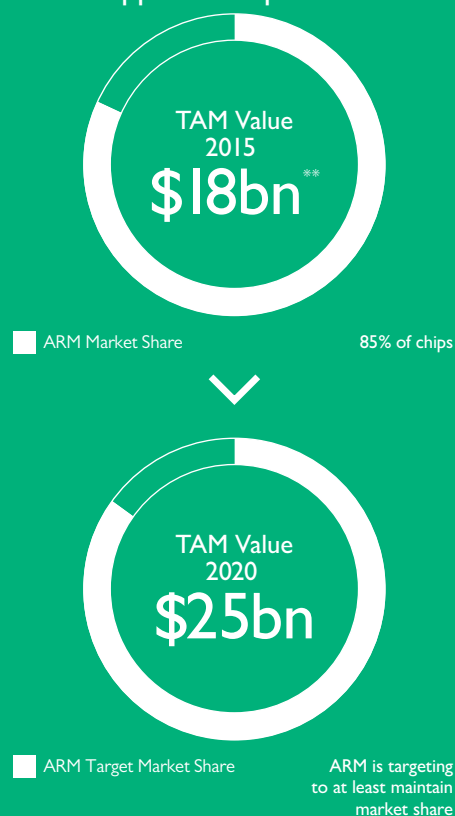
Over the next few pages we look at the main markets for ARM's technology.

*World Semiconductor Trade Statistics, January 2016.
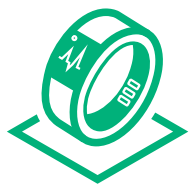
Mobile computing
Connecting us to each other, and our data

Total available market (TAM) for mobile applications processors*

TAM Value
2015
$18bn**

ARM Market Share   85% of chips

⌄

TAM Value
2020
$25bn

ARM Target Market Share

ARM is targeting
to at least maintain
market share

* Including smartphones, tablets and laptops.
**Based on ARM and market data.

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.

Over the past few years most of the innovation in smartphones has been along conventional parameters; speed of the main chip, screen size and connectivity. And these are going to continue to be important drivers of innovation.

Other technologies are now being introduced into smartphones. Sensors, such as microphones, noise cancellation technology and location awareness, are being integrated into your mobile computer, enabling it to do more than it has ever been able to do before. Next generation smartphones will be able to interact better with other devices; sharing information such as context or location. This will enable them to change their behaviour when you are at home, in your car, or in the office or at school. Future mobile devices will be able to interact with you in a much more natural way; understanding what you say, reading your handwriting, and recognising your gestures. The smartphone is going to significantly improve over the next few years, and all of this is going to require more processing capability and more technology from ARM to enable it to happen.

At the same time, basic smartphones are becoming cheaper and are proliferating across the world. In developing economies and in remote parts of the world, smart mobile devices are allowing people to be better connected, not just to each other, but also to education and information, and banking and medical services. Even these basic smartphones can contain several chips that utilise ARM processor and physical IP technology.

Today ARM-based application processors can be found in about an 85% share of mobile devices, including smartphones, tablets and laptops. Over the past five years this market has grown by an average of 30% per year. Analysts predict that the average annual growth rate to 2020 of this market is expected to be about 7%. Although this is a lower rate of growth, it still makes mobile computing one of the fastest growing markets in the semiconductor industry, which will continue to benefit ARM.

Smartphones that cost less than $100 are taking mobile technology to developing economies, enabling everyone to connect not just to their families and friends but also to medical and banking services.
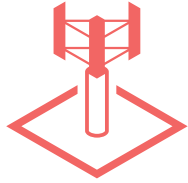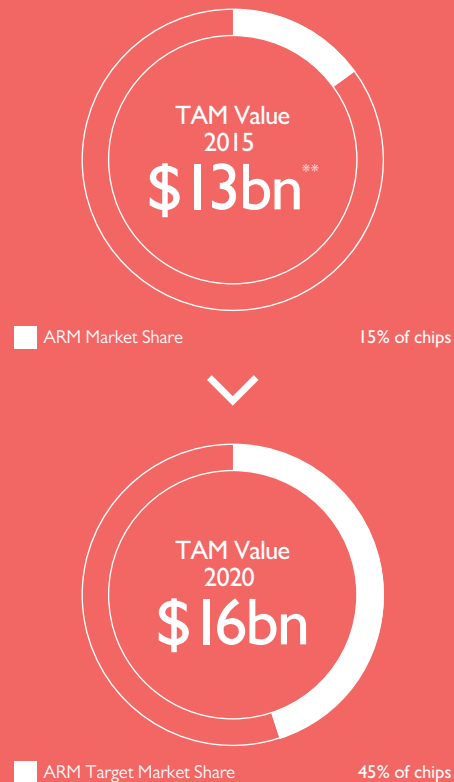
Efficient networking infrastructure
Moving more data, without using more energy

Networking 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 infrastructure of routers and switches that connects the internet together. Huge numbers of chips are needed within these systems and analysts* estimate that there were about 140 million chips sold for use in networking infrastructure in 2015, worth about $13 billion.

The network operators who own and run these networks believe that they can offer new services to consumers and enterprises that will generate new revenue streams for them. However, networks today are mainly built up using fixed function hardware, requiring relatively simple chips to control them. Operators want to transition these networks to much more intelligent and flexible systems, requiring sophisticated computer chips that will run new software that is being created to enable these new services. All of the major semiconductor companies that make chips for this market have licensed an ARM processor to help them add more intelligent chips to their product portfolios.

ARM is confident that ARM-based chips will gain share, however the rate of share gain is harder to predict as it depends on many factors including the investment plans of network operators.
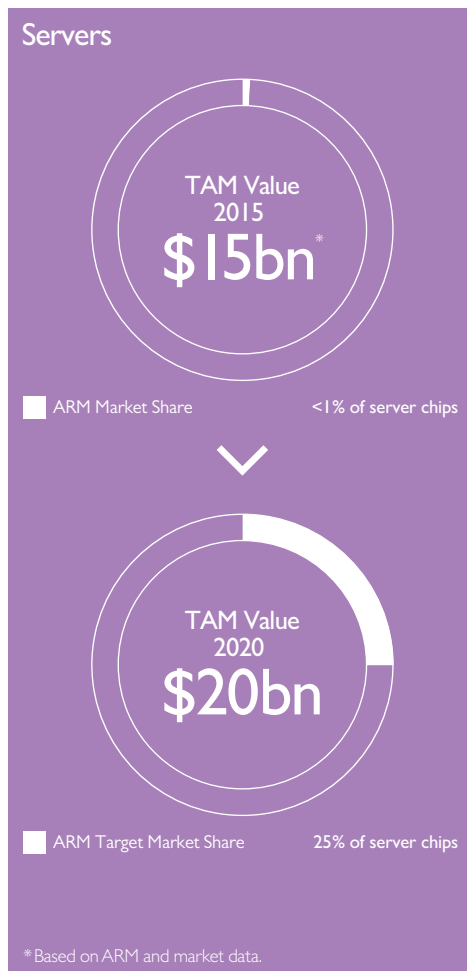
ARM is well positioned to gain share in networking infrastructure as future networks require more flexible compute capability, and all the major chip vendors for this market have already licensed ARM technology.

*Gartner, December 2015.

Low-power servers
Optimised for specific applications

Servers

TAM Value
2015
$15bn[*]

■ ARM Market Share   <1% of server chips

TAM Value
2020
$20bn

■ ARM Target Market Share   25% of server chips

*Based on ARM and market data.

Servers are powerful computers that sit at the heart of many large corporations. They run internet search engines and websites, provide video and music streaming services, manage the inventory of large manufacturing companies and analyse huge amounts of data in scientific institutes.

Many servers need to be general purpose as they have to perform a very wide range of tasks during their operational lifetime. However, in recent years servers are increasingly being used for only one specific application. For example there are storage servers in some social networking companies that will only ever be used to store photographs. There are servers that will only be used as a web or email server. And there are servers that will perform analytics on similar sets of sales data all day, every day.

Some companies are now looking to build application-specific chips for these servers running a single application. Through being optimised for a single application, these chips can be much more efficient and effective than a general purpose chip. This new approach to building server chips is creating an opportunity for ARM's Partners to gain share. See page 20 for more information about the products that ARM Partners are developing for this market.

The opportunity in servers is very large, and there will be competition from well-resourced companies who use alternative architectures. Some of these have established very strong barriers to entry. These companies say they intend to further improve their chips and systems, and that may make it difficult for ARM's Partners to be successful.

Despite this strong competition the changes in the server market are creating opportunities for new types of chips that ARM's customers plan to target. Based on the progress of our customers and feedback from the major web-scale companies and some large enterprises, we are targeting that a 25% share of servers shipped in 2020 will be using ARM-based chips.

The first ARM-based servers were deployed in 2015. These are mainly experimental systems that are being used to test which workloads run best on the energy-efficient chips from ARM's customers.

The Barcelona Supercomputing Centre successfully tested its Mont Blanc software on ARM-based supercomputers in 2015. The hardware is housed in the facility shown above.

Image by courtesy of Barcelona Supercomputing Center – www.bsc.es
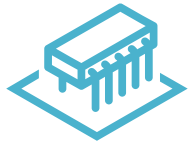
Embedded intelligence
Connecting billions of smart sensors into the Internet of Things

Opportunities for embedded chips in 2020*

Smart Home
$2.3bn

Smart City
$1.8bn

Industrial
$1.1bn

Other
$3.1bn

*Numbers show the forecast value of silicon chip sales. Forecasts based on ARM and Gartner data.

Many of the products and services we use every day are enabled by small smart microcontrollers. For example, microcontrollers can be found in the control panels and electric motors in air-conditioning systems and elevators, the remote controls for TVs, and electronic passports and credit cards. During 2015, the market for microcontrollers and smartcards grew 40% to 5.5 billion devices. The average selling price of these chips was around 85 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 ones 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 that wish to compete for market share. ARM is well positioned for this market as we have already licensed our technology to many of the companies that currently sell microcontrollers.

ARM technology is increasingly being deployed in embedded computer systems. In 2015 we estimated that about 25% of embedded computer chips contained an ARM processor, from chips in washing machines to lift controllers to commercial drones.

Fish are better with chips

In South Korea, fish farmers are growing healthier fish through the combination of smart, ARM-based technology and SK Telecom's mobile communications systems. By installing wireless, intelligent sensors in their fish ponds, farmers can measure variations in water quality and nutrient levels, helping them know when to feed the fish, or to attend to a maintenance task. As these fish farms are usually in remote regions and coastal areas, only wireless technology was cost-effective.

Smart sensor

ARM
Cortex-M

Sensors across the fish
farm monitor the quality
of the water.

Data transmitted wirelessly
by the sensors is collated
and analysed. Information
and alerts are transmitted
to the farmer's phone.

**Base station
tower**

**Mobile
device**

CEO's strategic perspective
Investing for long-term growth

Simon Segars
Chief Executive Officer

In 2015 ARM celebrated its 25th year. From the start, we knew that embedding intelligence into chips to create smart devices was the future of computing. We didn't know which markets would take off first, or how the technology was going to be used, though we always knew that ARM was going to change how and where computing happens, and that this was going to lead to a revolution in the digital products that we all use every day.

Our first real success was in early digital mobile phones. We were in the right place, at the right time, with the right technology. In the early 1990s no one knew that mobile phones were going to become the consumer electronic product that everyone would want to own, or that many semiconductor vendors would want an energy-efficient smart microprocessor to power their mobile phone chips.

The companies that used our technology in these early chips then started to use ARM processors in chips for other end markets. That led us to invest both in new technology that could be used in powerful applications, and to also invest in applications which needed much smaller processors such as the tiny microcontrollers that will enable the Internet of Things. The result is that ARM technology is now broadly adopted across many devices from sensors to smartphones and, in the future, into servers too.

ARM is enabling the companies that will build the chips for this enormous and growing market and we are investing in our business today to take advantage of that opportunity.

ARM is becoming increasingly diversified beyond mobile phones.

32%*
ARM's total market share in 2015

Mobile computers **>85%**

Storage **>90%**

Wearables **>95%**

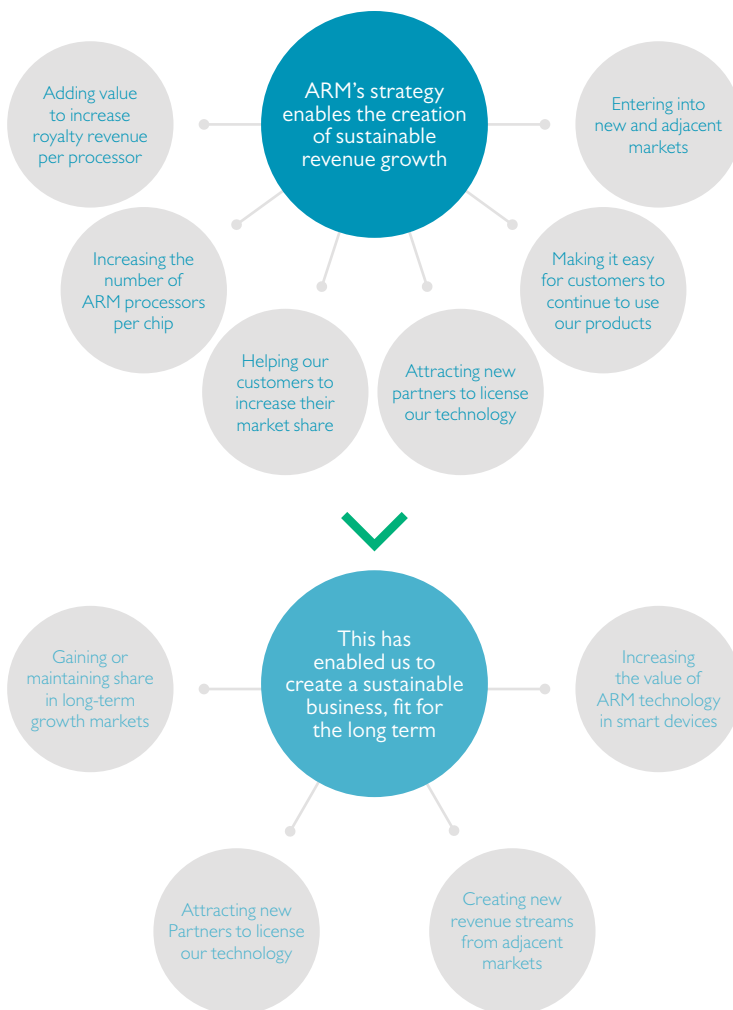Networking infrastructure **15%**

Embedded intelligence **25%**

*Based on ARM and market data.

We always knew that ARM was going to change how and where computing happens.

CEO's strategic perspective
Continued…

Creating sustainable growth

- ARM's strategy enables the creation of sustainable revenue growth
  - Adding value to increase royalty revenue per processor
  - Entering into new and adjacent markets
  - Increasing the number of ARM processors per chip
  - Making it easy for customers to continue to use our products
  - Helping our customers to increase their market share
  - Attracting new partners to license our technology

- This has enabled us to create a sustainable business, fit for the long term
  - Gaining or maintaining share in long-term growth markets
  - Increasing the value of ARM technology in smart devices
  - Attracting new Partners to license our technology
  - Creating new revenue streams from adjacent markets

Strategy for long-term growth

ARM is continuing to invest for long-term sustainable growth. We are investing in our current product portfolio, developing new processors that hit the right performance at the right power and with the right features for both existing and new markets.

We are investing in new products that will generate new revenue streams; some will be created through organic investments in our engineering teams, and some through acquisitions to accelerate time to market. In 2015 we acquired WiCentric Inc., Sunrise Micro Devices Inc. and Discretix, Inc. (trading as Sansa Security, Inc.), which have expanded our portfolio of products for the Internet of Things. We also acquired the business of Carbon Design Systems, Inc. which provides tools that our semiconductor Partners use to more efficiently design highly complex chips.

For ARM and our Partners to be successful, we need a broad ecosystem of companies that are building their businesses utilising ARM technology and supporting the ARM architecture. We are investing in this ecosystem to accelerate the adoption of new ARM technology for the markets that we are already in, and also for the markets that we are and will be growing into.

Investing in new technology is business as usual

ARM's business has been created around developing new and innovative technology to meet the demands of future consumer products and enterprise systems. Most of our engineering team is focused on developing the roadmaps for the product-lines that we have today, and we are working closely with market-leading customers to identify their future needs. About 17% of our engineers, led by our CTO, Mike Muller, are looking out even longer term, at what technologies we may be using in 10–20 years' time.

We have complemented our own R&D with acquisitions that can accelerate our existing business or become the seed for new technologies and products, servicing new markets and customers.

These are often bolt-on acquisitions that we can then scale up to become globally competitive. We also look at more established businesses that may come with existing revenue streams and ecosystems that we can combine with our own.
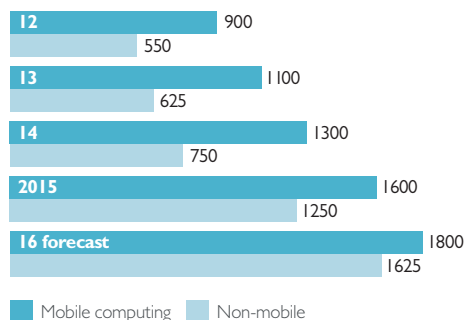
Although a lot of this investment is in our engineering teams, we also invest in the supporting people, systems and infrastructure that enable our engineering teams to develop, deliver and support the next generation of products.

In the past the vast majority of our people have been devoted to developing technology for the mobile market, and that investment has continued to grow. The mobile market remains important for us in part because many of the products we build for mobile devices end up being used in other markets.

We are also growing our headcount, with new engineering teams building products specifically for markets beyond mobile. We have grown this headcount by a factor of three since 2012.

ARM processor engineering headcount*

	Mobile computing	Non-mobile
12	900	550
13	1100	625
14	1300	750
2015	1600	1250
16 forecast	1800	1625

■ Mobile computing   ■ Non-mobile

*Resource allocation based on an estimate of "most likely initial use". Most ARM technology can be used in both mobile and non-mobile devices.

Strategy for the future

In 2015 we announced our strategy to capture greater revenues in the future by increasing our investments today. In the next few sections, I will outline our strategy in each of our target markets.

Leadership in mobile computing

The mobile market remains ARM's most important market, responsible for nearly half of all ARM-based chip shipments. Although we expect smartphone unit growth to be slower in the future, it remains a major growth driver for ARM over the next few years.

ARM expanding opportunity in mobile

The number of chips going into mobile devices, and the sophistication of those chips, is increasing. For ARM, this creates an opportunity to achieve higher royalty revenues from each smart mobile device.

Competition amongst smartphone handset vendors is driving innovation. Smartphone vendors now want to introduce a new premium model every year. Therefore, semiconductor companies have to develop more sophisticated chips every year, and are demanding a new platform of ARM technology to develop those chips. ARM is therefore creating a roadmap of products that will provide a complete system of technology on an annual basis to enable each new generation of chips for mobile devices. In 2015, this strategy delivered increased royalty revenue per smart device.

ARM has been investing in its mobile technology roadmap for nearly 25 years, and we will continue to develop advanced technologies for smart mobile devices. This will enable us to retain a high market share, whilst benefiting from higher royalty revenue per chip as companies choose to deploy more advanced ARM technology.

ARM's strategy to increase royalty revenue per smart device

ARMv8-A

ARMv8-A is the eighth version of the ARM architecture. It is more advanced than the previous generation, introducing 64-bit computing and improved security features. ARM typically receives a higher royalty percentage from chips based on ARMv8-A technology. ARM started to license this technology in 2009, and by the end of 2015 had signed 89 licences with 48 companies.

ARMv8-A is gaining share in smartphones and tablets. In 2015 about 50% of all smartphones sold were based on ARMv8-A, up from about 10% for the whole of 2014.

More cores per chip

ARM can receive a slightly higher royalty per chip with higher core counts. In 2015 nearly all Android smartphones had an ARM-based application processor that was either quad-core or octa-core. In 2014, nearly all of the chips used in Android phones had an ARM-based application processor that was dual-core or quad-core. So in 2015 we saw a significant increase in the number of cores per application processor in smartphones, and we benefited from the higher royalty revenue that generated.

Mali graphics

ARM's Mali graphics processor enables an immersive experience for games and brings user interfaces to life. Initially graphics processors were primarily found in high-end PCs and games consoles. Today, every smartphone has an embedded graphics processor and they are increasingly being designed into vehicle dashboards, cameras and even supercomputers. Mali is also royalty-bearing and has been gaining share. ARM has signed 132 Mali licences with 65 semiconductor companies.

In 2015 Mali became the highest shipping graphics processor in the smartphone market with a 40% market share.

CEO's strategic perspective
Continued…

Accelerating share gains in network infrastructure

The networking infrastructure equipment market is an exciting high-value market where we expect to see an increasing deployment of ARM-based chips.

Today ARM has a relatively low share of chips shipping into networking infrastructure. However, ARM has been developing technology that can deliver the performance required for the next generation of networking infrastructure equipment, and all of the major semiconductor companies that make chips for this market have licensed an ARM processor.

With many semiconductor companies building highly differentiated chips, all based on the ARM architecture, network operators will be able to run the same software across their system regardless of whether it utilises a chip optimised for base-station equipment, a router or a switch. This will make it more efficient for operators to deploy new services across their network, and these services will enable them to generate new sources of revenues.

During 2015, ARM announced that it was increasing its investment to accelerate its market share in networking infrastructure. These additional investments will be in three areas:

ARM's strategy to gain market share in networking infrastructure

Building better chip technology	ARM is investing in the analysis of new workloads that networking chips will need to undertake, which will help our Partners to build more optimised chips and ARM to design more advanced processors and other key technologies for future networking workloads.
Creation of new software	Foundational software that operators and enterprises will be using to implement their networks is being developed through industry-wide collaborations. ARM is increasing its investment in some of these collaborations to accelerate the availability of critical components.
Faster deployments of new technology	ARM is increasing its engagement with operators and OEMs to help them design these new technologies into future networks, enterprises and data centres.

Expected result of additional investments

Increasing investment now will create an opportunity to accelerate our future market share in networking infrastructure. Previously we had indicated that we were targeting our market share in 2020 to be in the range 30–35%. We are now increasing this target to be around 45%.

Accelerating gains in servers

The server market is another new high-value market for ARM technology where we currently have a very low share. Changes within the market are creating new opportunities for ARM's Partners. Our customers are creating application-specific chips that are optimised for a specific set of workloads and thus provide the right amount of performance for lower power than traditional server equipment.
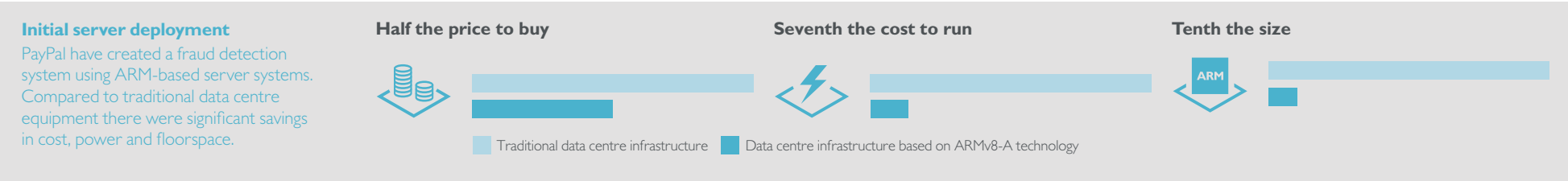
In 2015, ARM had less than a 1% share of the server market. We have seen progress during the year with six companies manufacturing ARM-based server chips, and we expect another four to start manufacturing in 2016. We have also seen progress in the software ecosystem, with Canonical's Ubuntu OS software now commercially available, and there are a large number of companies which have ARM-based server software available for developers to start working on. In addition, major server users are evaluating ARM-based technology in cloud deployments, in data centres, in high-performance computing and in enterprise applications.

For some specific applications, companies are already seeing the benefits of using an ARM-based server system; see PayPal example in the box below.

During 2015, ARM announced that it was increasing its investment to accelerate its market share in servers. These additional investments will be in three areas:

ARM's strategy to gain market share in servers

Building better chip technology	ARM is investing in the analysis of the workloads that server chips will need to undertake. This will help our Partners to build more optimised chips and ARM to design more advanced processors for future servers.
Optimising software	ARM is investing in additional software engineering resources to help accelerate the porting and optimising of software to support ARM-based server systems.
Faster deployments of new technology	ARM is increasing its engagement with companies which deploy server technology to help them design ARM-based server systems more quickly.

Expected result of additional investments

By increasing investment now we believe that we can accelerate our market share gains in servers. Previously we had indicated that we were targeting our market share in 2020 to be around 20%; we are now increasing this target to be around 25%.

Initial server deployment
PayPal have created a fraud detection system using ARM-based server systems. Compared to traditional data centre equipment there were significant savings in cost, power and floorspace.

Half the price to buy

Seventh the cost to run

Tenth the size

Traditional data centre infrastructure   Data centre infrastructure based on ARMv8-A technology

Creating new revenue streams from the Internet of Things (IoT)

The Internet of Things is a potentially huge market consisting of billions of sensors and devices all connected together; embedding intelligence into industrial automation, transport systems, national energy grids, as well as our homes, and potentially enabling a revolution in manufacturing, agriculture, the provision of medical services, and the running of the entire infrastructure of a city.

The chips that are being deployed into IoT devices are mainly microcontrollers and wireless connectivity chips. These are large and established chip markets where ARM has a growing share. In 2015, our share of the microcontroller market was about 25% and our share of the wireless connectivity chip market was over 60%. ARM processors are therefore being widely adopted as the architecture for many of the chips being deployed to create IoT.

The Internet of Things can bring huge benefits across the world, but recent history has demonstrated that computer networks can be targeted by hackers who want to disrupt the legitimate users of that network. The Internet of Things has to be built from the beginning with security as a key requirement.

ARM is therefore investing in new technology that will provide the building blocks for a secure network of embedded devices, and this will help to increase our revenue opportunity from this new market.

ARM's strategy to create new revenue streams from the Internet of Things

Securing the chip	ARM is investing in technology that will enhance security even for chips costing less than <$1. From early 2016, ARM is introducing new processors designed for microcontrollers and smart sensors that will help secure data inside tiny low-cost chips.
Securing the communications	In 2015, ARM announced the acquisitions of three companies that have provided the seed for our Cordio radio and mbed OS software. Together these technologies create a communications channel between IoT devices and the network, and also improve the security of that channel.
Securing the connection to the server	ARM is investing in its mbed Device Server software that will manage a network of IoT devices throughout their lifetime, from deployment to providing remote updates to retirement.

In addition ARM is investing to create an ecosystem of Partners that are developing complementary products that utilise ARM's technology.

Expected result of additional investments in IoT

By investing in new technology to help secure the Internet of Things, we have the opportunity to generate additional revenue streams. We are licensing mbed Device Server software as well as getting additional royalty revenue from embedded chips that contain more ARM technology such as processors, physical IP and our new Cordio radio IP.

Although we are confident that the Internet of Things is a significant opportunity for ARM, there are uncertainties too. We do not know how fast the Internet of Things will grow, how big it will eventually become, or who will be the market leaders. However, we would rather be investing in it now; creating technology that we believe will form a key component for many connected devices, and creating the new ecosystem of companies that will provide the products and systems from which these networks will be formed. We want ARM to be a market leader in the Internet of Things, and the only way to achieve that is to be fully involved.

Investing to shape the connected world

Over the past 25 years ARM's strategy has been to invest in the energy-efficient technologies that have changed how and where computing happens. Together with our semiconductor Partners, we have helped to shape this connected world. At ARM, we continue to evolve our strategy, and are further investing in new technologies that are taking us into some of the fastest growing and most rapidly changing markets. We believe that the connected world in which we live will lead to increasing market share, increasing revenues and a sustainable business fit for long-term success.

Simon Segars
Chief Executive Officer

Connected embedded devices are becoming critical components in business networks, providing new revenue opportunities for many companies, such as street-side electric vehicle charging points. This is also creating new opportunities for cyber criminals to disrupt markets to steal information or siphon away money. ARM's mbed Device Server will help to improve the security in an IoT network.
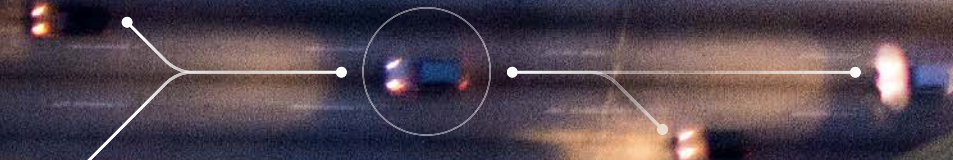
Making journeys safer and smoother

Technology can make journeys by car even safer. Cameras inside the car can warn the driver if they are showing signs of tiredness, or becoming distracted. Cameras outside the car look to understand what may be happening and provide additional information to the driver; identifying road signs, or whether a lane is accidentally being crossed, or another vehicle might be in the driver's blind spot. Eventually this may lead to a car that is capable of driving itself.

By 2020, we estimate that the market for smart automotive chips will be more than $15 billion, including infotainment, assisted driving technology and improved safety features.

Find out more about innovation in the automotive industry, visit:
www.arm.com/markets

By communicating with each other, cars can give immediate information about speed and location, and alerts when braking or changing lane.

Cars will be more self aware, improving blind spot detection, lane following and collision avoidance.

Roadside signs will provide additional information about traffic conditions ahead.

Our business model
Creating sustainable value

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.

We license our technology to a network of multiple Partners, mainly leading semiconductor companies. Licensees pay upfront fees to gain access to our technology. 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 25 years.

What we need to execute our business model

People and expertise
We are committed to hiring and developing some of the most innovative and imaginative engineers who, together with supporting teams, can develop and deploy ARM's next generation products and services

3,975
Full time employees

R&D investment
In 2015, we invested £215 million in R&D (normalised) to broaden and extend our product portfolio, and another £74 million was invested in acquisitions to accelerate product development and create new revenue streams for adjacent markets

£215m
Invested in research and development (normalised)

Technology collaboration
ARM works closely with other companies in the semiconductor industry to share knowledge, align roadmaps and to develop compatible technologies

We have built and invested in this unique ecosystem to ensure our mutual customers continue to build more effective products. This helps ensure that ARM's technologies are suitable for chips going into future consumer electronics and enterprise equipment

9,000
Engineers and industry experts attended ARM's annual technology conferences and symposia

Supply chain
In 2015, ARM spent about £150 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

£150m
Spent with suppliers

Strong financials
ARM had normalised cash generation of £361 million last year. A proportion of this cash is used to fund our business operations to ensure we invest to secure future profits and long-term value for shareholders

£361m
Normalised net cash generated

How we create value for our Partners

ARM employs engineers to develop advanced processors, physical IP, tools and software that we mainly license to companies developing chips for consumer electronics and enterprise equipment. We continue to invest in R&D programmes, hiring more engineers and investing in productivity tools as future generations of technology become increasingly complex.

It is more cost-effective for our Partners to license the technology from us. 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.

With ARM designing the technology 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.

R&D activity

2–3 years

Investment phase

How ARM creates value for our shareholders

ARM recovers its costs from each technology's licence revenues. 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. 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.

How ARM creates value for the long term

ARM reinvests back into the business, hiring more engineers to develop new technology that will enable us to create value for the long term. ARM's technology can be re-used by our customers in many different products and end markets; these will generate royalty revenues for years to come. Technology that we started licensing more than 25 years ago is still being deployed in new chips and generating royalty revenues today.

Product development

3–4 years

Upfront licence fee   **Royalty revenue**

Multiple applications across a range of markets

+25 years

Royalty revenue continues

The value we create

Chips shipped
ARM's Partners shipped around 15 billion ARM-based chips in 2015. These smart chips help to make consumer electronics easier to use and more fun, and enterprise equipment more capable and energy-efficient

15bn
ARM-based chips

Licence/royalty income
Every licence signed represents the opportunity for future royalty streams which can extend to over 25 years

1,348
Cumulative licences signed

Revenue
ARM's US dollar revenues grew 15% in 2015, as our existing customers adopted and deployed our latest technology in their current and future product portfolios, and as 41 new companies chose to adopt ARM technology for the first time

$1,489m
Revenue in 2015

Patents
ARM filed an additional 242 patents in 2015, taking the total number of patents owned or pending to more than 4,500. These patents help protect ARM's technology globally and help secure our future revenue streams

4,500
Patents owned or pending

Profits
With our revenues growing faster than our reinvestments in R&D, we are able to deliver increasing profits over the long term

£511m
Normalised profits before tax

£415m
IFRS profits before tax

Shareholder returns
In 2015, ARM bought back 9.0 million shares at a value of £92.2 million. In addition, the proposed full year dividend is 8.78 pence, a 25% increase

£200m
Cash returned to shareholders in 2015

Strategy and KPIs
Our strategy for long-term growth

This has been a year of continued progress to achieve our strategy for long-term growth, with more leading companies choosing to adopt and deploy ARM technology in their next generation products. To accelerate our growth between now and 2020, we have increased our investments in key target growth markets.

ARM's strategy enables key growth drivers that we measure on a regular basis. Each strategy has principal risks that have been identified and are being managed.

Our four growth drivers:

Gain or maintain share in long-term growth markets

> Read more on page 28

Increase value of ARM technology in smart devices

> Read more on page 30

Generate new revenue streams from adjacent markets

> Read more on page 31

Invest to create a sustainable business, fit for the long term

> Read more on page 32

> ARM's strategy may be impacted by the principal risks and uncertainties found on pages 35 to 39.

Strategy

> Develop energy-efficient technology

> Enable a broad ecosystem of Partners to innovate around ARM's products

> Listen to the needs of our customers and support them in their use of our products

> Anticipate worldwide technology and market trends and nurture new ideas

> Create a work environment where everyone can grow and excel

> Enable opportunity for everyone

> Deliver returns to shareholders while investing for the long term

Key performance indicators

> Building the base of licences that will drive future royalties

> Increasing share in target end markets

> Increasing the royalty rate per chip and the number of chips in smart devices

> Investing in new technologies and businesses

> Investing in ARM's people and systems

> Investing in sustainability

> Growing normalised profits, EPS, cash generation and dividends

Principal risks to strategy
(see page 36 for key to risks)

1 2 3 4 5 7

1 4 5 7

1 2 4 6

5 6 7 8 9

Growth driver:

Gain or maintain share in long-term growth markets

KPI:
Building the base of licences that will drive future royalties

Principal risks

| 1 | 2 | 3 | 4 | 5 | 7 |

Many wearable devices contain ARM-based chips

Wearable technology includes exciting new devices, from fitness trackers and smartwatches to wearable cameras, tracking devices and health monitors.

ARM mainly licenses its technology to semiconductor companies. 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 2015, we signed 173 processor licences, taking the number of active licences to 1,348. This growth came from existing customers who upgraded to the latest ARM processor in a particular end market; existing customers who expanded the range of technology they license from ARM, possibly as they enter a new market; and new customers taking their first ever ARM processor licence.

We continue to reach the entire spectrum of semiconductor companies, from the industry leaders to fast-growing start-ups. In 2015, 52 existing customers licensed additional ARM processors, and 41 companies licensed ARM technology for the first time. We ended the year with 425 processor licensees, all of whom are either shipping ARM-based chips and are paying a royalty, or intend to do so in the future.

To sustain this base of licences, and to ensure it continues to grow, ARM introduced four new processor products in 2015, including Cortex processors for premium smartphones, and an ultra-low-power graphics processor aimed at wearable devices.

Ten years ago, ARM technology was primarily licensed for use in mobile devices. Today, ARM technology is licensed into a wide range of end markets, which is reflected in the licensing in 2015.
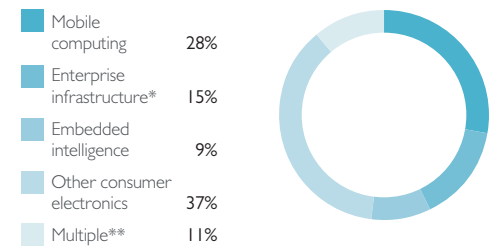
The future opportunity
ARM expects that its customers will continue to re-equip their R&D teams with the latest processors for existing product lines. In addition, ARM's technology is increasingly relevant to markets such as networking infrastructure, servers and embedded computing, leading to more new customers acquiring their first ARM licence.

Number of ARM licences signed

11	121
12	110
13	121
14	163
2015	173

Number of licences signed by end market FY 2015

Mobile computing	28%
Enterprise infrastructure*	15%
Embedded intelligence	9%
Other consumer electronics	37%
Multiple**	11%

* Includes networking infrastructure and servers

**Companies intending to use ARM technology in multiple markets

Growth driver:
Gain or maintain share in long-term growth markets

KPI:
Increasing share in target end markets

Principal risks

| 1 | 2 | 3 | 4 | 5 | 7 |

> Read more on pages 36 to 39

ARM is gaining share in networking infrastructure

To enable more agile service provision, operators are moving towards more software-based networks which need more compute capability, creating an opportunity for ARM's Partners.

In 2015, ARM's customers reported around 15 billion chips shipped, a 23% increase over 2014. By comparison, industry volumes grew 7% 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 share of chip market volumes rose to 32%, up from 30% in the previous year. The pace of volume share gains was slower than in previous years, though crucially ARM has started to win share in low-volume, high-value markets such as networking infrastructure and servers.

Mobile computing >85%
The mobile computing market includes smartphones, tablets and laptops; more than 85% of these devices sold in 2015 used ARM technology in the high-value applications processor chip which runs the operating system. ARM technology is also used in chips that provide connectivity and sensor functionality in mobile devices. Some laptop operating systems are compatible with ARM-based chips, and in 2015 we launched the Cortex-A72 processor which will help our customers be even more competitive in laptops.

Servers <1%
The first 64-bit ARM-based servers started to ship in 2015, and several companies announced their intention to develop ARM-based server chips for future years.

Networking infrastructure 15%
All of the main vendors of networking chips have licensed ARM technology for future products. Multiple companies released ARM-based chips for LTE base stations in 2015, and we expect to see many more networking chip designs come to market in the next few years. In 2015, we announced additional investments to accelerate our market share gains in networking infrastructure.
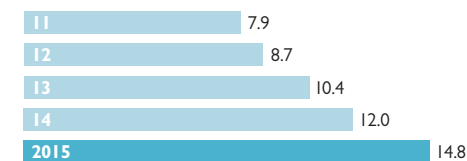
Embedded intelligence 25%
The microcontroller sector is decades old, and many microcontroller vendors still supply chips which are based on ageing proprietary architectures. Some years ago these vendors introduced ARM-based microcontrollers alongside their older designs, and their ARM-based variants are increasingly popular with OEMs. ARM's technology is often the preferred choice for OEMs as it allows them to consolidate their software development around a single processor architecture, without restricting their choice of suppliers.
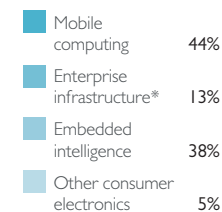
The future opportunity
All of these end markets have promising long-term growth prospects and, taking the competitive environment into account, ARM is targeting to either grow or maintain share in each market.

Shipments of ARM processor-based chips (bn)

11	7.9
12	8.7
13	10.4
14	12.0
2015	14.8

ARM processor-based chip shipments by end market
FY 2015

Mobile computing	44%
Enterprise infrastructure*	13%
Embedded intelligence	38%
Other consumer electronics	5%

*Includes networking infrastructure and servers

* **Source:** World Semiconductor Trade Statistics, January 2016. Excludes memory and analogue chips.

Increase value of ARM
technology in smart devices

KPI:
Increasing the royalty rate per chip and the number of chips in smart devices

Principal risks

1   4   5   7

Smartphones are getting smarter

The Samsung Galaxy S6 is powered by Samsung Exynos 7 Octa system-on-chip, integrating ARM big.LITTLE technology featuring ARM quad-core Cortex-A57 processors running at 2.1GHz and quad-core Cortex-A53 processors at 1.5GHz, as well as ARM Mali graphics processor.

From smartphones to dashboards in cars, today's consumer devices can access the internet and view complex content via rich user interfaces. These devices typically contain several ARM-based chips to run the operating system, process sensor data and interface with communication networks. In 2015, the popularity of taking "selfies" resulted in more OEMs incorporating better front-facing cameras into their phones. Some of the chips providing image processing support to the cameras contained ARM processors, thereby increasing the number of ARM-based chips.

The latest generation of smart devices can incorporate advanced technologies such as multiple ARM processors per chip and graphics processors to provide acceleration for games and the user interface. Devices with more ARM content typically provide higher royalties, so the growing demands for compute performance leads to a growing revenue opportunity for ARM.

During the year, the number of chips sold containing our Cortex-A technology rose 16%. This was driven by the growth in the number of ARM-based mobile computing devices as well as more networking infrastructure equipment being deployed with ARM technology.

Nearly all smartphones sold in 2015 had a Cortex-A family processor in the main chip. Of these around 50% were based on our latest processor architecture, ARMv8-A (up from about 10% in 2014); around 40% also contained Mali graphics processors (up from 25%); and 10% deployed chips with more than four cores (up from <1%), which enables responsive performance without compromising battery life.
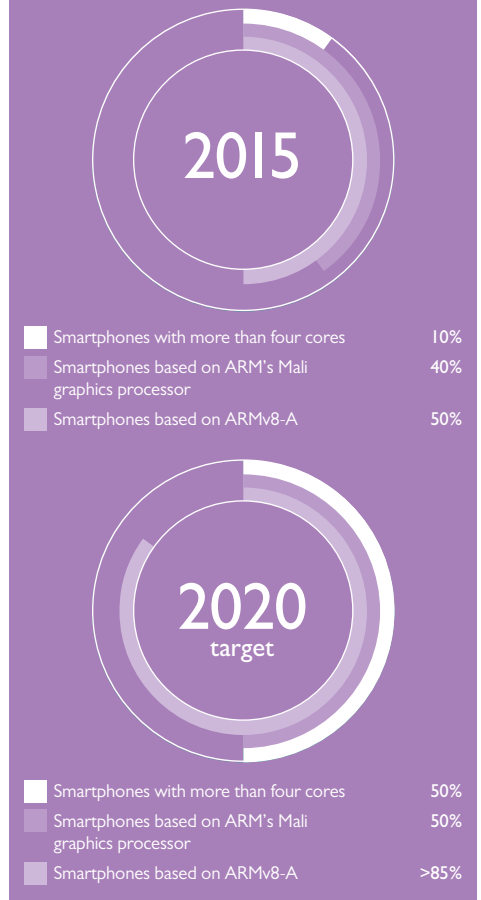
The future opportunity

ARM expects compute requirements will continue to rise; driven by richer user experiences in consumer markets and data processing trends in enterprise. We expect these trends will drive demand for our most advanced technologies.

Penetration of technologies

2015

Smartphones with more than four cores	10%
Smartphones based on ARM's Mali graphics processor	40%
Smartphones based on ARMv8-A	50%

2020 target

Smartphones with more than four cores	50%
Smartphones based on ARM's Mali graphics processor	50%
Smartphones based on ARMv8-A	>85%

Generate new revenue streams from adjacent markets

KPI:
Investing in new technologies and businesses

Principal risks

1   2   4   6

Creating smarter infrastructure

Smart, connected chips can be found in streetlights, traffic signals, car parking, toll booths, and across mass transport systems such as railways, trams and buses. Similar chips are making manufacturing, agriculture and freight transport logistics more efficient and effective.

ARM is best known for the digital technology it provides to semiconductor companies, however around 500 of our R&D engineers spend their time researching new markets and developing new technologies. In 2015 two of our research projects matured into revenue-generating businesses — Cordio and mbed Device Server.

Cordio

Cordio provides highly-integrated and ultra-low-power radio technology to semiconductor vendors. The radio provides Bluetooth connectivity to low-cost sensors that can then communicate with the internet wirelessly, running for several years off a single coin-sized battery.

This product was enabled by two acquisitions — Sunrise Micro Devices and Wicentric — which were completed in early 2015. Since then we have invested further in the Cordio platform, and it forms part of the IoT Subsystem for Cortex-M processors which was released later in the year. This product combines processor, radio and physical IP technologies from ARM, allowing relatively small design teams within our customers to bring low-power IoT products to market quickly and with low development risk.

mbed Device Server

ARM launched mbed Device Server, a solution for managing IoT systems in 2014. Examples of IoT systems include smart lighting which can vary its brightness according to traffic levels, smart irrigation systems which can adjust how much water they disperse according to the moisture content of nearby soil, and smart factories that can place orders with suppliers automatically when store rooms run low of stock. Each IoT system could have hundreds of thousands of low-cost end points which communicate with remote servers in a secure manner. Provisioning and managing a large number of secure connections is a complex task.

In 2015, ARM established commercial partnerships, relating to mbed Device Server, with several IoT and data analytics companies, including General Electric Company, IBM Corporation, Microsoft Corporation and Salesforce.com, Inc.

Future opportunities

ARM intends to grow the Cordio and mbed Device Server product lines into meaningful revenue streams. In addition, ARM is evaluating potential investments which may yield new revenue streams in the future.

Number of engineers invested in longer-term development projects
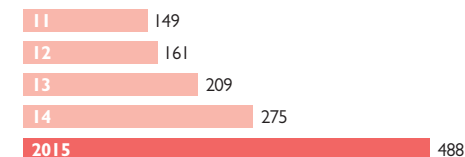
Year	Value
11	149
12	161
13	209
14	275
2015	488

Growth driver:

Invest to create a sustainable business, fit for the long term

KPI:
Investing in ARM's people and systems

Principal risks

5 6 7 8 9

Shaping and connecting an innovative workforce

ARM's employees are recognised and rewarded for how they work together, how they drive innovation and how they support our customers.

Our people design our products, deliver them to our customers, and support the ecosystem of Partners which brings that technology to market. We invest in our people through hiring the brightest and best graduates as well as seasoned industry experts, developing them and providing a supportive culture to maximise their capability and potential. See page 42 for more information.

In 2015, ARM increased headcount by a net 681 people. Some of our new colleagues came from acquisitions, with the majority being new hires into the business. Overall, most new joiners were engineers to increase our research and development capability. Headcount grew in all areas of the business, and an increasing proportion of our engineers are working on processor technologies for servers and networking devices.

ARM's systems and supporting infrastructure amplifies the creativity of everyone in the organisation and enables our engineers to develop and test complex technology. In 2015, we initiated a multi-year programme to improve our online support for developers and engineers who use ARM technology in their products. In Q4 2015, we launched the developer.arm.com website, and more services will be introduced in 2016.

Partly as a result of this investment, normalised expenditure on research and development rose to £214.8 million in 2015, representing 22% of revenues and 28% growth year-on-year. Expenditure on research and development under IFRS was £278.0 million, representing 29% of revenues and 24% growth year-on-year.

The future opportunity
We aim to create a work environment where everyone can grow and excel, and be rewarded for their contribution. We will continue to grow our engineering capability and operational execution, and as the products designed by our people are adopted in more end markets, we expect the business to generate more profits.

Number of employees at year-end

Year	Number of engineers	Other employees	Total
11	1,382	734	2,116
12	1,652	740	2,392
13	1,987	846	2,833
14	2,370	924	3,294
2015	2,938	1,037	3,975

Number of engineers   Other employees

Growth driver:

Invest to create a sustainable business, fit for the long term

KPI:
Investing in sustainability

Principal risks

5　6　7　8　9

> Read more on pages 36 to 39

Improving care in rural communities

Khushi Baby uses a mobile app for community health workers that interfaces with a digital necklace worn by patients. Health workers can scan a patient's chip, without needing connectivity to a central database, and can read, act upon, and update the health record.

ARM takes a long-term view of its business; it can take ten years to develop a new architecture, design a processor based on that architecture, for our customers to build that design into a chip and for that chip to start shipping in large numbers. And each processor may ship in chips for several decades to come. The sustainability of our business is therefore a critical factor in how we develop and execute our strategy.

Since 2012 ARM has participated in an annual assessment process for the Dow Jones Sustainability Index (DJSI), considered by many to be an industry standard for corporate-wide sustainability. The process involves a rigorous assessment of the sustainability of the governance, strategy and performance of around 2,000 of the world's largest companies.

Each year we have improved on our overall performance score and our percentile performance in relation to the semiconductor industry peers. In 2015 we were included in the European Index of the DJSI for the first time as our sustainability programme across the whole business was recognised as being aligned with best practices in the industry, and in some cases leading the way.

The future opportunity

Our corporate responsibility programme will continue to improve, and we are embarking on new programmes designed to improve our performance across areas such as supply chain management, environment and impact reporting. We have set ourselves a DJSI performance target score of 85% for 2020.

Since 2012, we have also increased our cash contributions for the corporate responsibility programme from 0.13% of pre-tax profit to 0.50% in 2015. This is supplemented by employee volunteering time contributions, in-kind contributions, pro-bono support and leveraged contributions through partnerships and industry sector collaborations.

Absolute company score

11*	0
12	53
13	61
14	69
2015	74
2020 Target	85
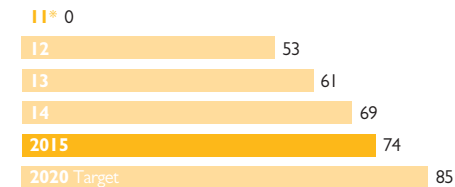
*ARM entered the Dow Jones Sustainability Index (DJSI) in 2012

Percentile ranking of company

12	57
13	68
14	76
2015	76

Contribution to the CR programme as percentage of pre-tax profit (%)

12	0.13
13	0.44
14	0.38
2015	0.50

KPI:
Growing normalised profits, EPS, cash generation and dividends

ARM's business model and exposure to structural growth markets together mean that it is well positioned to grow profits, generate cash and support a growing dividend.

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. Our customers include the world's largest semiconductor companies, and 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. In 2015, no one company accounted for more than 10% of our revenue, which was also the case in 2014.

In 2015, ARM generated $1.49 billion of revenues (£968 million). During the year, ARM achieved normalised cash generation of £361 million. The increase in cash generation is primarily due to the increase in revenue. ARM returned £200 million of cash to shareholders in 2015 through a combination of share buybacks and dividends. In 2015, ARM increased the full year dividend by 25% to 8.78 pence and spent £92.2 million buying back 9.0 million of its own shares.

The future opportunity
ARM intends to continue investing in R&D that is expected to deliver long-term growth in profits, earnings per share and cash returns.

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

17%
Dollar revenues
2011-2015 CAGR

18%
Sterling revenues
2011-2015 CAGR

22%
Normalised profit
before tax
2011-2015 CAGR

28%
IFRS profit before tax
2011-2015 CAGR

25%
Normalised earnings
per share
2011-2015 CAGR

18%
IFRS earnings
per share
2011-2015 CAGR

15%
Normalised cash
generated
2011-2015 CAGR

26%
Dividend per share
2011-2015 CAGR

Risk management
Identifying and managing risks

ARM has a robust risk management and internal control process in place to identify key risks; assign ownership for each risk at a senior management level; identify both existing and planned management activities to mitigate 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

› Ensure that the Board has a current understanding of the risks in the business, the plans to mitigate those risks and the status of those mitigation efforts

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 internal controls across the organisation. ARM has a number of internal controls and processes in place to provide assurance on compliance with the AMS.

Risk appetite
Determining the Group's willingness to take on risk (its "risk appetite") is the starting point of an effective risk management and review process. ARM's risk appetite differs across the activities that are necessary to maintain and grow our business. The most important elements for ARM are our people and systems to develop new technologies and products, our ecosystem, our brand and reputation, and compliance and regulatory matters. In these areas we have a low appetite for risk, and the Group has more internal controls and processes to minimise the probability or impact of a risk occurring.

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 on the basis that the risk management activities assigned to them are operating effectively and an overall RAG (Red, Amber, Green) rating is generated, taking the risk appetite statement into account where appropriate. Plans to monitor and mitigate individual risks are then included 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 2015 on pages 12 to 14. 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.

Viability statement
The Group's strategic plan covers a five year period, over which the directors have made assumptions regarding the Group's revenues, operating costs, dividends, cash requirements and capital structure. A five year planning period is appropriate because of the duration of the Group's product development cycle (see pages 24 to 25).

The projections for the first three years of the plan are based on current licensing opportunities and foreseeable royalty revenues. There is inherently less certainty in the projections for years four and five. The directors have therefore determined that three years is an appropriate period for the viability statement.

In assessing the Group's prospects and resilience, the directors considered the Group's current business position and risk appetite. The conclusions were stress-tested by analysing the principal risks to the Group's business model, performance, solvency and liquidity (see pages 36 to 39). The directors believe the principal risks to viability are: a shift in industry practice (risk 1), the risk posed by the success of a major competitor (risk 2), and risks to reputation (risk 7), since crystallisation of these risks would have the potential to damage the Group's financial position.

Based on this assessment and the mitigating actions described, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2018.

*The "three lines of defence" model is a widely used methodology for monitoring, evaluating and improving risk management effectiveness.

Risk management continued

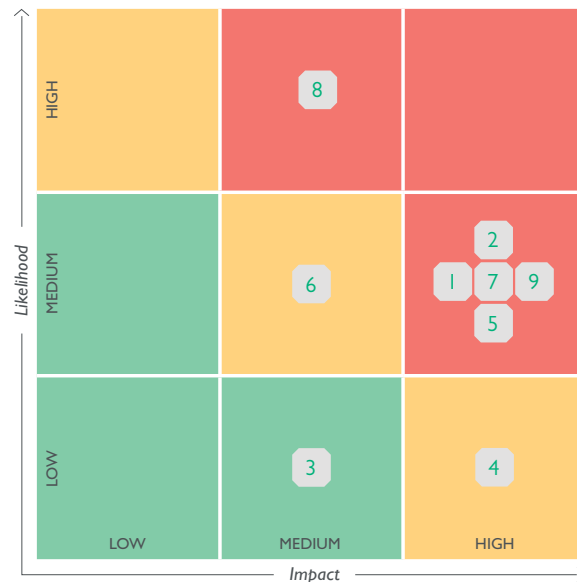| Principal risks		Primary strategic areas affected	Change in 2015
1	A change in the industry business dynamic may lead to loss of market share and/or reduction in value of IP	▸▸▸	=
2	A competitor's product or technology may lead to loss of market share	▸▸	=
3	ARM may face challenges managing its business 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 of ARM technology in smart devices

▸ Generate new revenue streams from adjacent markets

▸ Invest for the long term

= Not materially changed

↑ Risk materially increased

↓ Risk materially decreased

All of the principal risks and uncertainties are regularly reviewed. In the view of the Risk Review Committee none had changed significantly in the past year, and so the classifications above are unchanged.

↓

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 420 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 2015

ARM has gained share in key markets such as networking infrastructure and the Internet of Things, and retained a high share of application processors in smart mobile devices such as smartphones. Competition from well-financed companies has continued. One area of competition is for the main applications processor in the tablet market, and in 2015 ARM's share of this market increased to 90%, up from 85% in 2014.

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

ARM faces competition both from large semiconductor companies and from smaller IP companies.

Intel is developing x86-based processors for use in PCs and servers, and is looking to deploy these chips in markets such as tablets, mobile phones and embedded markets, including the Internet of Things. There are many small semiconductor IP companies competing with ARM, especially in emerging markets, 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 2015

During 2015, ARM's Partners announced advanced new chips based on our latest ARMv8-A processors for a wide range of markets including smartphones, tablets, consumer electronics, networking infrastructure and servers. Competitors have announced new alternative processors and chip designs. In 2015, these saw limited adoption in smartphones and some adoption in tablets, in the future they may be able to increase share across all markets. We have also seen competitors make strategic acquisitions and ecosystem investments that may help them gain share in ARM's target markets.

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

Chinese semiconductor companies have become responsible for an increasingly significant proportion of ARM's revenues, and we expect that proportion to continue to grow. India has had a strong semiconductor presence for many years, although revenues from that region are smaller. ARM has little knowledge and experience of the markets in Russia, South America and Africa, which have different political 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 19% of our workforce is split between these two countries. We have regional development offices to support the other regions, and combined with regular visits by management, we track opportunities and meet local decision makers.

Change in 2015

ARM grew its headcount in Asia (including India) by around 20% in 2015 and, in China, launched the ARM Innovation Ecosystem Accelerator to provide a facility for companies to collaborate together to create products 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.

4 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 either to 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 2015

ARM's latest processor architecture is now widely adopted, and in 2015 was deployed in around 50% of smartphones shipped, and also into consumer electronics and networking 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.

Risk management continued

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 develops, and so result in both additional costs and a delay in revenues.

Mitigation
We have licensed our processor technology to over 420 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. We are also signing more licences with OEMs, who normally buy chips from our customers, but in some cases are now developing their own chips.

Change in 2015
In 2015, we saw consolidation amongst some of our customers, and we 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. At the same time, ARM signed 41 new customers mainly in fast-growing markets such as microcontrollers and the Internet of Things. In 2015, 71% of ARM's revenue came from our top 20 customers, up from 65% in the prior year.

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 2015
ARM hired net 568 engineers and 113 supporting staff in 2015, and we acquired four companies who have provided technologies and teams that will help develop the next generation of ARM products. To mitigate any integration risk the engineering and functional teams have plans and processes to speed the combination of the acquired teams into ARM. In addition, we have continued to develop our long-term planning processes to strengthen the linkage between product planning and supporting infrastructure investments. We have also invested to improve internal communication and collaboration, and in systems to help us manage our growing global workforce.

7 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's 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 2015
In 2015, ARM initiated functional safety assessments for new products which may be deployed in safety critical systems. This will help ensure that our technology is suitable for use in automotive and aerospace applications.

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 2015
In 2015, ARM tracked the developments in the US Congress on the Reform of Patent legislation designed to tackle the perceived problem of patent activity by some non-practising entities. To date, progress on any legislation in this area appears stalled. Meanwhile, we have been encouraged by changes wrought by US Courts in regards to issues such as fee-shifting and we believe this will result in fewer non-meritorious actions against ARM and its Partners and a more reasonable approach to patent royalties in the future.

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 2015
In addition to our quarterly results, ARM hosted two investor days during 2015 which gave updates on our progress and investments in new markets such as the Internet of Things, networking infrastructure and servers. The content of these events can be found on the ARM website at www.arm.com/ir.

10 Operational risks

In addition to the principal 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 AMS 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 2015
All of the operational risks changed either in context or in likelihood or impact. For example, as the inherent risk of cyber-attack has increased for all companies, ARM has improved its security measures commensurately with the increased risk. However, none of the risks increased significantly enough for them to be considered a principal risk and so continue to be managed at an operational level.
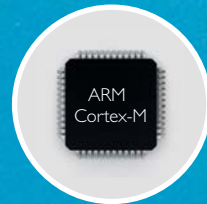
Shaping a sustainable future

ARM-based chips are being deployed to make infrastructure equipment more efficient, and to connect it to networks allowing remote real-time monitoring and control. In wind energy ARM-based chips are used to control and monitor both the wind turbine components and power generation and metadata aggregation across the entire wind farm.

Smart, connected chips can be found in streetlights, traffic signals, car parking, toll booths, and across mass transport systems such as railways, trams and buses. Similar chips are making manufacturing, agriculture and freight transport logistics more efficient and effective.

Find out more about innovation using embedded computers visit:
www.arm.com/markets

The power output of a wind turbine is determined by the wind speed, and also precise control of the yaw of the turbine relative to the wind, and the rotor blade pitch.

ARM Cortex-M

Infrastructure can be made more capable using smarter chips. For example Xilinx's Zinq chips are based on ARM Cortex-A technology and are deployed in some wind turbines to improve their effectiveness.
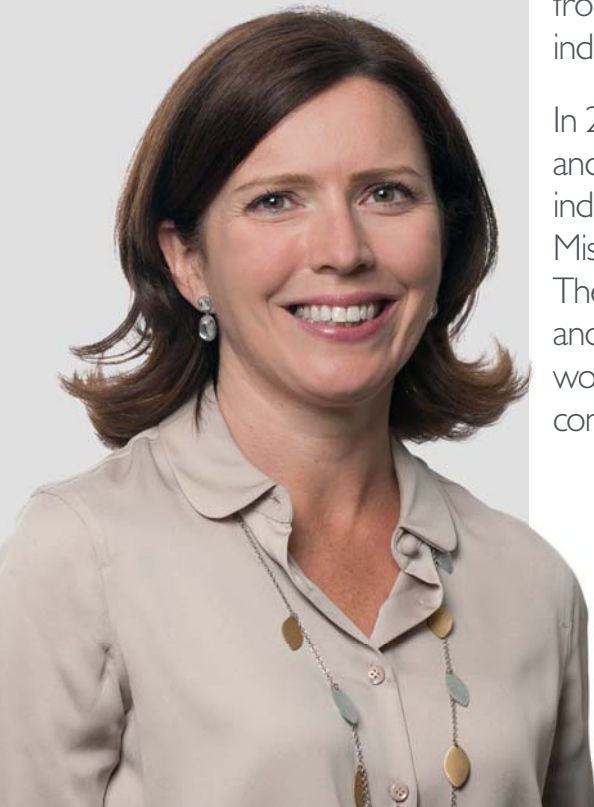
Most wind turbines are located in remote locations and must be monitored and controlled without having to visit onsite.

Our people
Growing and enabling the organisation that shapes the connected world

Jenny Duvalier
EVP People

ARM was founded 25 years ago with a team of 12 people, and by the end of 2015, that team had grown to 3,975. ARM provides individuals with the capabilities, processes and infrastructure that enable them to develop and thrive as our business scales and strengthens. At the same time, we seek to retain a work culture that is grounded from our days as a start-up; to maximise the creative potential of individuals and to enable our people to be their brilliant selves.

In 2015 we continued shaping and strengthening our organisation, and set ourselves the goal of being the best place to work in our industry. We laid new foundations by introducing an updated Vision, Mission and Strategy and set out ARM's Core Beliefs and Behaviours. These connect all of our people with the heritage of the last 25 years and give us a collective view of our future. They define how our people work together to create technology that invisibly enables a globally connected population.

Culture
Giving our people the best working experience

ARM's Core Beliefs and Behaviours represent the essence of what makes ARM unique. They unify people from different countries and backgrounds, guide how we make decisions, and permeate all ARM processes and systems, including our new approach to performance management.

People at ARM are recognised for how they work together, how they drive innovation and how they support our customers. ARM gives managers the flexibility to recognise and reward excellent performance, and gives individuals control of their career development, enabling them to progress their technical and leadership skills. When hiring, we assess candidates for their cultural fit with ARM; that they are inquisitive and passionate about the success of others.

ARM completed four acquisitions in 2015. We seek out companies that complement our strategy and share our values. When deals are completed, we strive to ensure our new colleagues find their feet quickly at ARM, and this year we launched an "M&A People Toolkit" to ensure that the due diligence and integration process runs smoothly for everyone.

We recognise the importance of social capital and engagement, listen to our employees and act on feedback. Our employee engagement survey has run for 13 years. The commitment of ARM employees continues to be high, with 85% of our employees saying that they are sustainably engaged, an increase on 2014 and significantly higher than industry norms. Nine out of ten are proud to work for ARM, and even more are willing to put in discretionary effort to help ARM succeed.

Capability
Strengthening the organisation, teams and individuals

Through new hires and acquisitions, we expanded our workforce by net 681 people in 2015, taking the total to 3,975 (2014: 3,294). We opened offices in Deerfield, Miami and Chandler, Arizona, and now have 35 offices worldwide. We also invested in building the capability of individuals and teams through training and personal development. Our robust induction programme seeks to accelerate the ramp up of our new colleagues through a combination of information sharing and networking.

In 2015 we enhanced our technical, management, leadership and business skills training. We also refreshed our approach to talent management, improving the way we evaluate potential and focus the development activities of our colleagues. We will continue to roll out and embed this approach in 2016, ensuring we have robust succession plans in place throughout the organisation to ensure that ARM thrives now and in the future.

From our earliest days, we recognised the importance of diversity and inclusion in building a highly innovative business. In 2015 we reviewed how we could include diversity in our hiring and leadership programmes, and how we could encourage young women to consider a career in engineering. Gender diversity at ARM is close to the industry average, with women in 10% of engineering positions, and 30% of other groups – see page 47 for further details. One of the objectives of our Corporate Responsibility programme is to encourage more young people, particularly girls, to consider a career in engineering.

Connection
Enabling colleagues to engage with each other, and with ARM

As we grow, it is ever more important to bring people together, and we organise several events a year to connect colleagues across the globe. Our annual Global Engineering Conference brings together 15% of our engineers to discuss important development issues that affect our business, especially those that cross the organisational boundaries of function, location, and department. In 2015, 585 recent starters attended a Big Picture induction event and 155 colleagues participated in the Global Graduate Conference.

We also promote connection through online collaboration and communication. We recently relaunched ARM's intranet to act as a central hub for all of our people to find and share information. Our internal social media network is used by over 65% of our employee base each day, and hosts regular "ask me anything" sessions with our CEO.

Our engagement survey shows that our people are proud to work at ARM, and this includes pride in our heritage. In November 2015, ARM celebrated its 25th anniversary with events in all of our global offices. We were joined by company founders and guest speakers to explore ARM's history and how ARM technology has helped shape the connected world.

Connecting with people in our local communities is important to ARM. All ARM people can spend at least one day each year on volunteer work through our TeamARM programme and they will receive full pay for that day. In 2015 more than 20% of our workforce took this opportunity, devoting 4,385 hours to skills-based volunteering, with more than 90% of our offices actively engaged in TeamARM activities around the world.

Graham Budd
Chief Operating Officer

Corporate responsibility
Delivering social impact at scale

ARM technologies are appearing in an increasing range of devices. Some have the potential to solve some of the greatest challenges of our time. Through partnerships, we are working with others to deliver social impact at scale.

In 2014 we announced our objective to develop a Corporate Responsibility (CR) programme that would help millions of people. Since then, we estimate we will have helped over 300,000 people through a combination of improved access to education, medical services, charitable donations to health and education providers and support of programmes. Over 80% of those are in some of the poorest parts of the developing world. For more information see our 2015 CR Report at www.arm.com/CR.

Our next step is to bring about measurable improvements in the livelihoods of millions of people in the next five years. This means delivering positive change to one million people by 2016; and ten million by 2020. It is an ambitious target building on our previous commitments and will only be attainable with the help of our long-term charity partners that enable us to reach communities at scale.

Alongside this, we aim to improve our measurement approaches so that beyond measuring the number of people reached, we can understand both qualitative and quantitative impact. This means co-developing metrics with each of our key partners covering indicators like the number of lives saved, as well as education, health and livelihood outcomes. For example:

› Education – helping teachers and society demonstrate technology's potential to improve the world and inspire the next generation

› Health – improving global health outcomes in developing countries through long-term partnerships, supporting innovation and through the use of ARM technology

2015 saw the introduction of the United Nations' Sustainable Development Goals (UN SDGs) and, as a member of the UN Global Compact's Advisory Board, ARM contributed to their development. We will be applying these goals to help guide and measure our own performance, and to structure our reporting.

Further information about the impact our programme is having can be found in our CR Report and disclosures supplement. These are available for download from the ARM website.

CR strategic principles

Our CR strategy is informed and inspired by the wider ARM business model, innovation, trust, and Partnership. Linking back to the core business enables us to deliver a more strategic impact over a longer timescale, and to share expertise through mutually beneficial partnerships.

Our CR principles reflect ARM's values and operating model:

› Building an ecosystem of partners with a shared purpose, enabling us all to achieve more with a lower financial investment

› Working with experts who are specialists in our project areas to generate credible evidence of impact

› Encouraging collaboration among Partners and encouraging the open-sourcing of relevant research and analysis

› Nurturing innovation and creativity to tackle complex problems that may have no established precedent

Measuring our performance

Robust monitoring and evaluation help ensure each project remains on track. Our programmes are mapped to each of the 17 UN SDGs and we report according to the Global Reporting Initiative G4 guidelines and the Dow Jones Sustainability Index (DJSI) best practice benchmark.

In 2015 we achieved entry into the European Index of the DJSI with a 74% ranking, and we have targeted inclusion in the World Index by 2017. Indeed, a key 2020 goal is to achieve 90% or higher percentile ranking in the DJSI.

Our CR focus areas

We have decided to focus on four areas of impact that reflect our skills, technology and ecosystem (see above). Working with charity partners and a range of internal and external stakeholders, we prioritise:

Education

Over the past year, ARM has been working with its technology Partners and the BBC on the micro:bit, a pocket-sized device that will be given free to every 12 year old in the UK. The micro:bit seeks to engage youngsters in computer coding in the same way that educational computers from the BBC Micro to the Raspberry Pi have inspired many of the engineers at ARM over the years. This initiative reflects our wider commitment to inspire a new generation of engineers and entrepreneurs.

Over one million micro:bit devices will be given to children in 2016, and ARM is now working on projects that will help teachers integrate them into lessons and broaden the usability of these mini-computers for older age groups.

Other education projects in 2015 included the Science, Technology, Engineering and Mathematics (STEM) Scholars Programme, gathering data to show how to improve STEM uptake and attainment; and the Global STEM Alliance, mentoring thousands of children across the world.

Health

We are proud of our strategic partnership with UNICEF, which began in May 2015 and has already shown how wearable technology can change children's lives for the better. The Wearables for Good challenge had over 250 entries from 46 countries, with seven countries represented among the ten finalists. The winners are now being supported by ARM to turn their concept into a viable prototype, and we are matching all ten finalists with funding and commercial partners to incubate ideas. For more information go to: http://wearablesforgood.com/winners/.

We are also working with UNICEF on its technology platform, U-Report, which supports 1.7 million young people across Africa. By offering technical and financial support we will help UNICEF scale this service across more countries in Africa.

Other health projects include Literacy Bridge, which, in 2015, reached 175,000 of the poorest farmers in the world and Simprints, which has begun its first major health data capture trials with 22,000 mothers and children in Bangladesh.

Environment

We are on track to achieve our 2020 target of 15% reduction in energy consumption per employee, however we have not achieved the level of progress we had hoped in addressing our target of a 30% reduction in carbon emissions per employee during 2015. This is due partly to an increase in the size and complexity of our global estate, and partly to the delay in establishing new programmes to reduce the direct environmental impact of our business operations.

We remain committed to our 2020 targets, and have identified carbon offset opportunities, as well as energy efficiency opportunities across our estate to achieve them.

Additionally, ARM's low-power technology has an important role to play in reducing global emissions by enabling greater efficiencies in areas such as the data centre, factory automation and building control. Our technology is also 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.

Contributing to Communities

During 2015, we significantly expanded our reach and impact across communities. We successfully launched our employee volunteering programme which has seen 4,385 hours contributed by our employees globally. We also donated over £200,000 to local community charitable projects in our neighbourhoods. In addition to time and money, we have worked to bring together our partners and businesses to collaborate on shared objectives around education and health. For example, we have set up a working group of Cambridge businesses to tackle issues pertinent to the local community.

Looking forward

The partnerships that we formed and strengthened over the year will help improve outcomes for millions of people. By 2016 we expect that at least one project will be reaching over a million more people and that all our projects are contributing to a Group goal of improving ten million lives by 2020.

Governance
Embedding good governance into everything we do

Philip Davis
Company Secretary
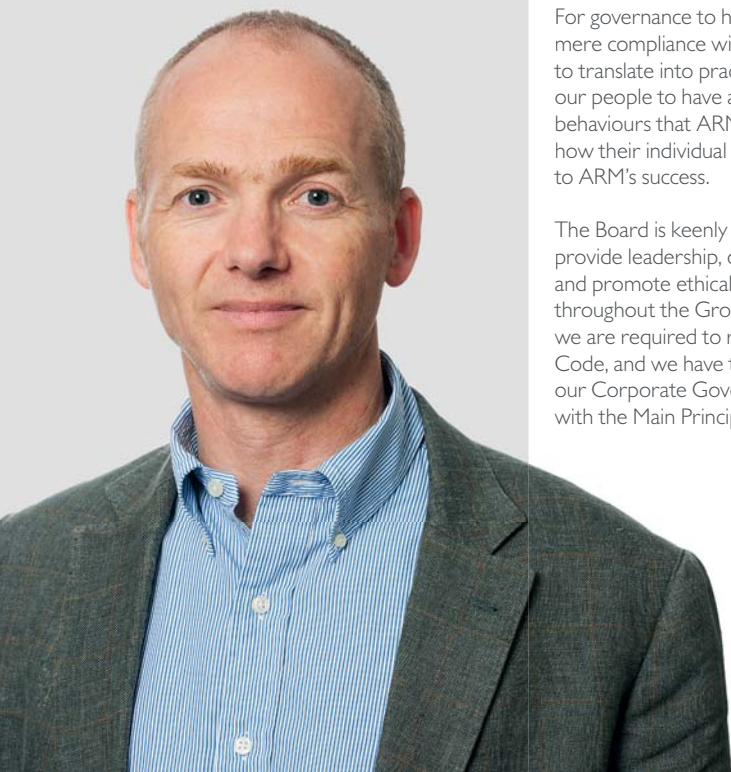
At ARM, we strive to embed good governance practice into everything we do; from the way in which our licensing team interacts with our ecosystem Partners, to the manner in which the Board of directors functions. A fundamental part of the way we do business is embedding the Main Principles of the UK Corporate Governance Code (the "Code") and embracing best practice across all parts of our organisation.

For governance to have meaning and value beyond mere compliance with codes and regulations, it has to translate into practical application. This enables our people to have a clear view of the culture and behaviours that ARM encourages, and to understand how their individual and collective actions contribute to ARM's success.

The Board is keenly aware of its responsibility to provide leadership, operate with transparency and promote ethical behaviour and collaboration throughout the Group. This year is the first in which we are required to report against the updated 2014 Code, and we have taken the opportunity to align our Corporate Governance Report more closely with the Main Principles of the Code.

For more information see our
Governance and Financials report:

We have created the annual report as two documents. The Strategic Report contains an update on ARM's progress during the year and information about the markets in which we operate and our strategic plans alongside summary financial results, as well as an outline of our approach to governance and risk management. The separate Governance and Financial Report provides more detail on our governance arrangements and our financial statements.

Leadership
Effective leadership starts with an effective board of directors. ARM operates in a fast-paced and fluid industry, and the composition of our Board is an essential component for successful leadership. We regularly review the Board's composition to ensure that we are well-positioned for now and in the future. The current composition of our Board reflects a strong balance between technology sector, commercial, financial and general business skills, with a highly experienced international team leading the business in both executive and non-executive roles.

The executive and non-executive directors have well defined roles. Their combined contributions to the healthily diverse Board add value to the debate, decision making and strategy development which is crucial to the Group's success. ARM's Board has the breadth and depth of experience necessary to guide the Group as it seeks to take full advantage of new opportunities and contend with new challenges.

The changes in 2015 to the Board and its Committees are outlined in the Chairman's introduction on page 3 of the Governance and Financial Report.

During the year, the Board reviewed executive and senior management succession plans to ensure that they are sufficiently robust and provide a strong pipeline of future executives who can continue to deliver ARM's strategic objectives. The Nomination Committee will continue to review the experience and expertise of the directors as part of its responsibility to monitor and maintain an effective Board.
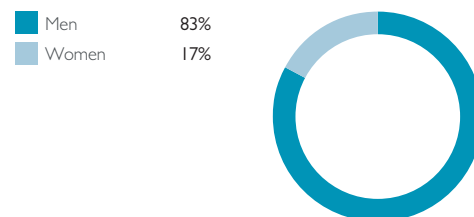
Our diversity policy and more detail of the Nomination Committee's work on diversity can be found on pages 23 and 24 of the Governance and Financial Report.
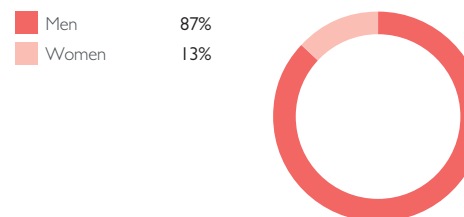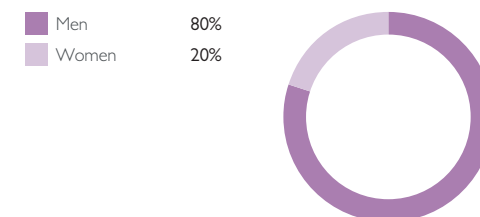
Diversity of new hires

Men	81%
Women	19%
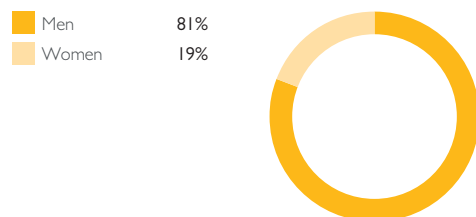
Diversity of the Group

Men	83%
Women	17%

Diversity of managers

Men	87%
Women	13%

Diversity of the Board

Men	80%
Women	20%

Effectiveness

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

During 2015 we built on the work undertaken in 2014 that defined our short-term and long-term strategic priorities. We held two strategy-focused meetings in 2015. The Board considered how best to increase growth in our core markets, how to accelerate share gains in new markets, and which emerging technologies will be the cornerstone of ARM's future success and long-term growth.

Page 9 of the Governance and Financial Report summarise the Board's activities during 2015, evidencing how our directors discharged their leadership responsibilities and developed our strategy.

In accordance with the Code, the Board undertakes a review of its effectiveness each year and reports on the results. This year, we conducted an internally-facilitated review with an anonymous online questionnaire completed by each director. The results were discussed by the Board and priorities for further improving the Board's effectiveness in 2016 were agreed. More detail on the Board Evaluation exercise can be found on pages 10 and 11 of the Governance and Financial Report.

Accountability

Maintaining a governance framework which is fit for purpose is a continuous task. We have taken a risk-based approach to reviewing our committee structures to ensure that our framework is neither too onerous nor too light touch. As our business continues to evolve, so will our governance framework. ARM uses the ARM Management System to document the details of our governance framework and records our approach to assurance in every aspect of ARM's business.

We currently have five governance review teams covering our key operational business risks: customer satisfaction, health, safety and environment, business continuity, security and project management. These teams are comprised of personnel from across our engineering and corporate functions and each team meets regularly to review and monitor the issues within its remit.

Matters deemed worthy of further scrutiny are escalated upwards to either the Compliance Committee or Risk Review Committee, both of which report regularly to the Executive Committee and the Audit Committee. We believe this structure aligns with our risk-based approach to governance.

A full description of our committee structure and composition can be found on pages 13 and 14 of the Governance and Financial Report and more information on our risk management and internal control activities on pages 35 to 39 of the Strategic Report.

Our values

ARM's strength is in the high calibre of its people, and in the way in which they behave: fairly, honestly and with integrity. We ask all our employees to embody ARM's three core beliefs encouraging teamwork, driving innovation and creativity and helping everyone within the Group to reach their full potential.

Each year all employees are required to confirm that they have read and understood the Group's Code of Business Conduct and Ethics, which includes our Human Rights Policy. We also ensure that employees receive regular training on relevant legislation such as the UK Bribery Act 2010 and global competition laws.

Our sustainability values are of great importance to the way in which we work. Full details of our CR strategy and achievements can be found in the main CR report, which is available on ARM's website, and a summary of highlights from the year are included in the CR section of the Strategic Report on page 44.

Relations with shareholders

The Board makes considerable efforts to establish and maintain good relationships with shareholders and the wider investment community. There is regular dialogue with institutional investors during the year, except during close periods.

The main channel of communication continues to be through the Chief Executive Officer, the Chief Financial Officer and the VP of Investor Relations. The Chairman, the Senior Independent Director and the other directors are available to engage in dialogue with major shareholders as appropriate.

The Annual General Meeting is an opportunity for private investors to attend and ask questions of the directors. Contact details for our investor relations team can be found on the back cover of this report.

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 26 to 34 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 of ARM technology in smart devices

■ Generate new revenue streams from adjacent markets

■ Invest for the long term

Single figure remuneration

The table below sets out the total remuneration received by each executive director relating to 2015.

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

This table 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.

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

The bonuses earned during 2015 were paid in full in February 2016.

The money and other assets receivable for periods of more than one financial year are the amounts received by directors on the vesting of shares in February 2016. These shares were awarded in February 2013 under two schemes: the Long Term Incentive Plan and the matching element of the former DAB Plan. The amounts received are included in the single figure remuneration for 2015 since the performance periods for these schemes both concluded in 2015.

Share prices applicable to grant and vesting of share awards:

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

2016 fees

The standard non-executive director fee will increase to £65,000 in 2016 to reflect ARM's position in the FTSE 100 and the increasing scale and complexity of the business. The additional fee paid to the Senior Independent Director will remain £16,000 and the fee for the Committee Chairmen will remain £20,000 per annum. The fee paid to the Committee Chairmen was increased in 2015 to more fairly reflect the workload undertaken by Committee Chairmen. The fees paid to the Chairman and the non-executive directors in respect of 2014 and 2015 and proposed to be paid in 2016 are set out below.

Director	Total proposed fee 2016 £000	Total fee 2015 £000***	Total fee 2014 £000
Stuart Chambers (appointed 27 January 2014)	400	407	348
Lawton Fitt (appointed 1 September 2015)**	85	21	–
Andy Green*	81	62	68
Larry Hirst	85	81	78
John Liu** (appointed 1 December 2014)	65	63	6
Stephen Pusey (appointed 1 September 2015)	65	20	–
Janice Roberts**	65	68	69
Kathleen O'Donovan (retired 31 December 2015)	–	96	93

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

**　Additional fees are paid to non-executive directors who are based outside the UK and travel to the UK for Board meetings as follows: Janice Roberts $2,500 per meeting, John Liu £2,000 per meeting, Lawton Fitt £2,000 per meeting. This is to reflect their additional time commitment. These figures are not reflected in the total proposed fee for 2016.

***Includes taxable benefits related to expenses paid to non-executive directors to travel to UK Board meetings.

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.

Getting to know you

Smart mobile devices are becoming smarter all the time. Every year smartphone OEMs launch multiple different devices most of which include new features that are more advanced than the previous generation of device. In 2015, ARM benefited from the "selfie". The quality of front-facing camera is now an important feature of the phone. To increase the capability of the front-facing camera, OEMs have added extra intelligence into the chip that controls the camera sensor and ensures the picture is the best possible.

In the future your smartphone will be more context aware, knowing whether you are at home or school, or driving to work, and changing its behaviour to anticipate what you will want it to do next. You will be able to interact with your phone and tablet more easily, as it understands what you say, and what your gestures mean.

Better cameras are providing smartphones with computer vision, enabling them to understand your gestures
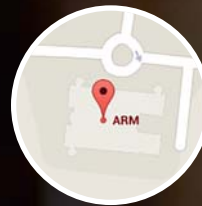
When you get into the car, your phone will know to tell your car the location of your first appointment

"Your friend Anna is close by"

As voice recognition improves, it will be easier to tell your phone what to do

Find out more about innovation in mobile computing visit:
www.arm.com/markets

The trend for selfies resulted in more advanced front-facing cameras, creating an opportunity for another ARM-based chip

Smartphones with 4K screens need more advanced graphics processors to manage all 8.6 million pixels creating an opportunity for ARM's Mali graphics processor
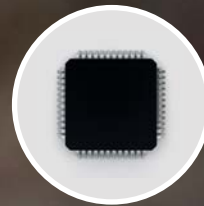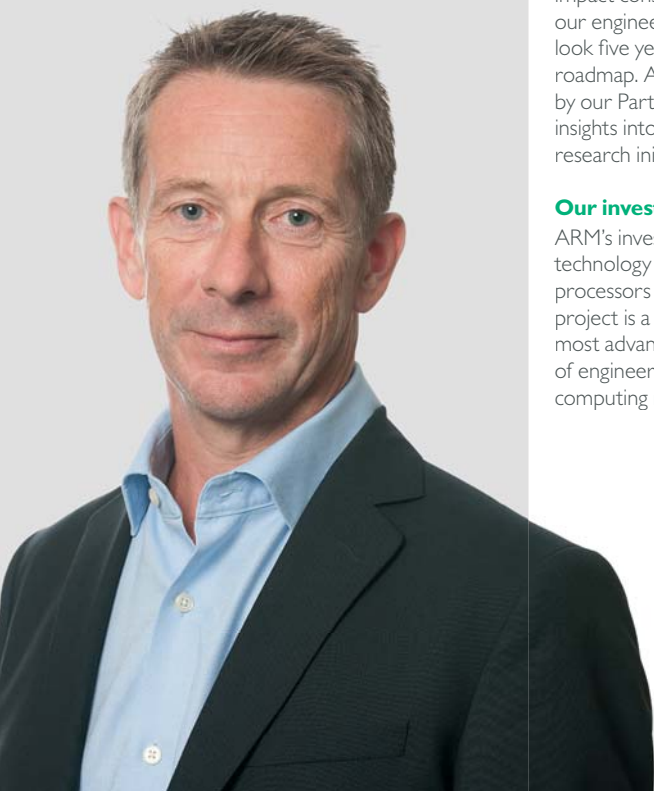
About 50% of smartphones had our latest ARMv8-A processor in 2015

Most smartphone devices contain multiple functions that can use ARM's technology

Financial strategy
Our financial strategy

Chris Kennedy
Chief Financial Officer

Our financial strategy

I joined ARM as CFO in September 2015, and am pleased to be part of the management team that will build on the achievements and success of the last 25 years.

An important part of ARM's strategy is identifying the development projects that will generate the best returns for shareholders. It can take ARM several years to develop a processor, and it may take our Partners years more to build products incorporating our technology. Some of the R&D programmes undertaken by ARM in 2015 will not impact consumer products until 2020, which is why our engineering, marketing and finance teams often look five years ahead when planning our technology roadmap. ARM's long-term plans are informed by our Partners' future technology requirements, insights into market developments and many research initiatives.

Our investment strategy

ARM's investment strategy is to create licensable technology through the development of new processors and related products. Starting a new project is a significant financial undertaking: our most advanced processor designs involve hundreds of engineer-years of work and require significant computing resource.

As the technology needed in consumer electronic products becomes more advanced, the processors needed to control them become more complex and more costly to develop. This trend encourages semiconductor companies to outsource aspects of their internal R&D activities and hence creates opportunities for ARM to gain share. We fulfil the growing demand for our products by expanding our own R&D capability, hiring more engineers, and increasing our productivity with better tools, methodologies and IT infrastructure.

At 31 December 2015, ARM employed 2,938 engineers. This was a 24% increase in the year, reflecting the increased investment in products that will generate licence and royalty revenue in future years.

In markets such as networking infrastructure, servers and IoT, we are at a key juncture for the adoption of ARM technology, and by increasing investment now, we can accelerate our progress. Over the last few years we have signed many ARMv8-A licences for networking and server applications, and our Partners are now introducing their first generation of ARM-based products which utilise this technology. Their chips have received encouraging feedback from end-users, and so in 2015 we identified a number of investment programmes that will help those end-users adopt ARM technology more quickly. We also increased our software development activities for IoT. Simon describes the initiatives for networking, servers and IoT on pages 16 to 21.

The incremental investment programmes for networking, servers and IoT will build through 2016, and the full year impact on our 2017 operating expenditure budget is expected to be an additional £40 million. The target return for these programmes is $200 million of additional revenue in 2020.
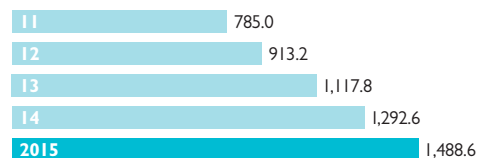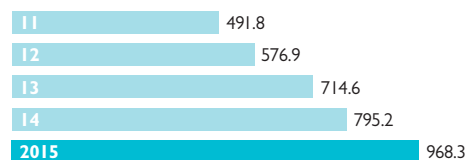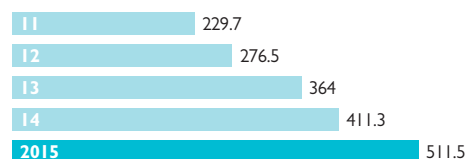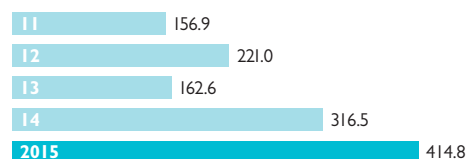
Bolstering investment through acquisitions

Alongside organic investment, we continue to enhance our product portfolio and enter new markets via acquisitions. We look for companies that have high quality technology that is complementary to our existing portfolio (see page 31), expert people and a corporate culture that aligns with our own (see page 42). Some acquisitions are early-stage companies with compelling technology; some bring an established revenue stream as well. In every case, our aim is to expand the newly-acquired operations by aligning their strategy with ARM's and providing additional investment.

For example, in 2004 ARM entered the market for physical semiconductor IP by acquiring Artisan Components, Inc. The expertise Artisan brought helped ARM's Partners produce high-performance ARM-based chips, driving growth in processor royalties. In 2006 ARM entered the market for graphics processors by acquiring Falanx Microsystems AS, a privately-held company in Norway. Through a combination of its Partner network and targeted organic investment, ARM expanded this business under the Mali brand to position it for global success. In 2015, ARM Mali was the most widely-deployed graphics technology in the semiconductor industry with 750 million chips shipped.

More recently, ARM acquired four businesses in 2015 costing a total of £73.9 million. Three of these – Discretix (trading as Sansa Security), Sunrise Micro Devices and Wicentric – added new licensable technology to our product portfolio. The fourth – Carbon Design Systems – expanded our offering of advanced tools that help our Partners produce increasingly complex ARM-based chips. We intend to invest further in each of these businesses over the coming years and grow them into meaningful contributors to Group profits.

Dollar revenues ($m)

11	785.0
12	913.2
13	1,117.8
14	1,292.6
2015	1,488.6

Sterling revenues (£m)

11	491.8
12	576.9
13	714.6
14	795.2
2015	968.3

Normalised profits before tax (£m)

11	229.7
12	276.5
13	364
14	411.3
2015	511.5

IFRS profits before tax (£m)

11	156.9
12	221.0
13	162.6
14	316.5
2015	414.8

Investing in the business to create long-term returns to shareholders

ARM continues to generate cash which we use to support our long-term investment in growth. Consistent with our current approach, the Board keeps the level of cash under continuous review, reflecting on the organic and inorganic investment requirements of the business, balanced by the discipline to ensure that the investment will generate an appropriate return for shareholders.

ARM is committed to maintaining a net cash balance in the medium term. This reflects the continued commitment to invest in R&D that is vital to the product development pipeline for ARM and its Partners. Our Partners need to be assured that ARM can maintain this R&D commitment, and deliver the next generation of ARM technology, regardless of the external environment. This also ensures ARM retains the flexibility to move quickly and decisively in a fast moving industry when there are opportunities to extend growth.

The Board also remains committed to continue growing the dividend in line with the growth of the business and maintains its intention to increase the ordinary dividend over time, extending a run of 11 consecutive years of dividend increases. In 2015 ARM returned £107.8 million by way of ordinary dividend. In addition, ARM will continue to repurchase shares to offset the dilution from share-based compensation.

Based on the increased investment in R&D in 2016 and the current pipeline of acquisition opportunities, the Board is comfortable with the levels of net cash expected in the coming year, and will review again at the start of 2017.

Progress in 2015

In 2015, ARM generated dollar revenues of $1,488.6 million, an increase of 15% over the previous year. Reported in sterling, revenues of £968.3 million were up 22% year-on-year.

Licence revenue

Total dollar licensing revenues in 2015 were $587.9 million, a similar level to 2014 ($580.8 million). As explained in ARM's 2014 Annual Report, licensing revenues went through a period of accelerated growth in 2009 to 2014. This was driven in part by the introduction of our ARMv8-A technology, which opened up opportunities beyond ARM's traditional markets of mobile and embedded. The success of ARMv8-A resulted in a significant expansion of ARM's customer base, and licence revenues more than doubled between 2009 and 2014. In 2015 licence revenues remained at this higher level and we expect to see further growth in the future.

During the year 93 semiconductor companies signed a total of 173 processor licences with ARM. Of these, 52 were existing customers that upgraded their portfolio of ARM products; the remaining 41 were companies that acquired their first ever ARM processor licence. The licences covered a broad range of technology from the microcontrollers needed in the connected devices that will form the Internet of Things, through the next set of application processors for future generations of smartphones, to high-end processor designs aimed at the markets for networking infrastructure and servers.

Royalty revenue

In 2015 our Partners shipped around 15 billion chips containing ARM products. We saw widespread adoption of our ARMv8-A and Mali technologies in mobile devices, as well as the first chips with higher core counts. Chips that contain these technologies typically generate higher royalties. We also saw a recovery in market conditions following a period of weakness in 2014, when sales of mobile processors were held back by manufacturers managing their inventories. The uptake of our latest technology, the industry recovery and our continued market share gains saw our US dollar processor royalty revenues grow 32% in 2015. This growth rate was significantly higher than the long-term trend: since 2010, US dollar processor royalty revenues have grown at a CAGR of 19% per annum, outperforming the wider semiconductor market's growth of 1% per annum[*].
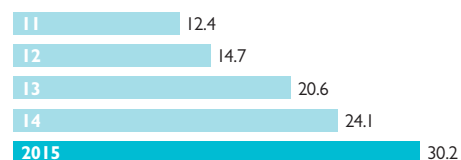
We expect that our royalty revenue growth will continue to outpace the semiconductor industry over the medium term. The drivers for this outperformance are our ongoing market share gains and the trend for modern devices to use increasing amounts of ARM technology, as outlined in our business strategy (see page 26). In particular, we see opportunities arising from the continued growth in mobile computing, the deployment of ARM processors in servers and networking infrastructure equipment, and the emergence of the Internet of Things.

A comparison of revenues by revenue stream between 2015 and 2014 is shown in note 2 to the financial statements.
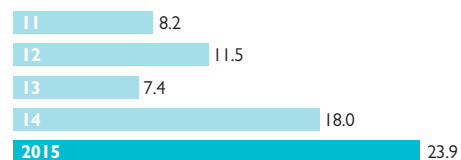
*World Semiconductor Trade Statistics, January 2016
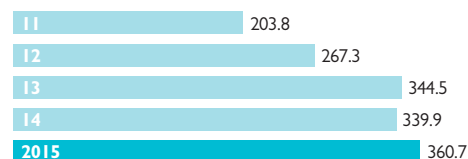
Financial strategy
continued

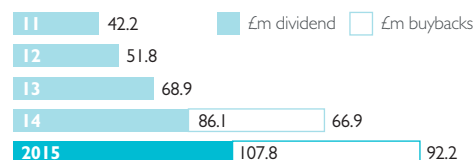**Normalised diluted earnings per share** (pence)

11	12.4
12	14.7
13	20.6
14	24.1
2015	30.2

IFRS diluted earnings per share (pence)

11	8.2
12	11.5
13	7.4
14	18.0
2015	23.9

Normalised Net Cash Generated (£m)

11	203.8
12	267.3
13	344.5
14	339.9
2015	360.7

Cash returns to shareholders (£m)

☐ £m dividend ☐ £m buybacks

11	42.2	
12	51.8	
13	68.9	
14	86.1	66.9
2015	107.8	92.2

Operating expenditure

Normalised research and development expenditure in 2015 was £214.8 million (IFRS: £278.0 million), compared with £167.8 million in 2014 (IFRS: £224.2 million). The increase is a result of the continuing investment in new technology development, as described above.

In the year to 31 December 2015, ARM's normalised sales and marketing spend was £93.1 million (IFRS: £106.1 million), compared with £81.0 million in 2014 (IFRS: £93.2 million). The year-on-year increase reflects our closer engagement with chip vendors, equipment manufacturers and developers, to support activities that will accelerate market share gains.

As we scale, we continue to invest in the infrastructure of the organisation and in the teams that support deployment of ARM technology (IT, HR, finance, legal). In the year to 31 December 2015, ARM's normalised general and administrative costs were £123.7 million (IFRS: £138.8 million), compared with £110.5 million in 2014 (IFRS: £131.0 million).

Tax

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 accruing to it by virtue of its high level

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

In 2015, ARM's normalised effective tax rate was 16.2% (IFRS: 18.1%), which reflects the benefit of the Patent Box legislation and other R&D credits. ARM's normalised profit before tax in 2015 was £511.5 million (IFRS: £414.8 million).

Payables

Our success is closely aligned with that of our customers and it is in our long-term interest to enter into contracts that are mutually beneficial. ARM aims to pay all suppliers within terms; during the year to 31 December 2015, the average time to pay a supplier's invoice was 21 days (2014: 22 days).

Cash generation and cash returns

Our normalised cash generation in 2015 was £360.7 million. The directors are recommending payment of a final dividend in respect of 2015 of 5.63 pence per share which, taken together with the interim dividend of 3.15 pence per share paid in October 2015, gives a total dividend in respect of 2015 of 8.78 pence per share.

This is an increase of 25% over 7.02 pence per share in 2014. The total cash outflow from dividends paid in 2015 amounted to £107.8 million (2014: £86.1 million). In 2015, the recommended dividend per share was equal to 29% of our normalised diluted earnings per share (37% of IFRS diluted earnings per share).

Subject to shareholder approval, the final dividend for 2015 will be paid on 13 May 2016 to shareholders on the register on 22 April 2016.

At the start of 2015, ARM's fully-diluted share count was 1,421.1 million shares. It is our intention to continue to maintain a flat share count over time by offsetting dilution from share-based remuneration with further share buybacks. In 2015, ARM bought back 9.0 million shares at a total cost of £92.2 million, and ended the year with a fully-diluted share count of 1,420.3 million.

Risk

The principal risk factors faced by the Group are identified on pages 35 to 39. Further details of risks and uncertainties faced by the Group are noted within the Annual Report on Form 20-F for the year ended 31 December 2015, which is available on ARM's website at www.arm.com.

Financial tables
Normalised costs and expenses reconciled to IFRS

The following tables show non-GAAP measures used in this report, including reconciliations between normalised and 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.

	Normalised £m	Share-based payments £m	Intangible amortisation and acquisition-related charges £m	Profit on disposal of investments net of impairment charge £m	Restructuring £m	Linaro-related charges £m	IFRS £m
2015							
Cost of revenues	37.0	2.3	–	–	–	–	39.3
Research & development expenses	214.8	50.7	12.5	–	–	–	278.0
Sales and marketing expenses	93.1	12.9	0.1	–	–	–	106.1
General and administrative expenses	123.7	11.7	1.7	(5.3)	–	7.0	138.8
Total operating expenses	431.6	75.3	14.3	(5.3)	–	7.0	522.9
2014							
Cost of revenues	35.6	2.2	–	–	–	–	37.8
Research & development expensess	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

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Profit from operations (per income statement)	406.1	309.0	153.5	208.1	148.9
Intangible amortisation and acquisition-related charges	14.3	10.4	11.6	8.8	6.4
Share-based payment costs and related payroll taxes	77.6	71.6	74.0	45.4	57.7
Restructuring charges	–	8.6	–	–	–
(Profit)/loss on sale/impairment of investments	(5.3)	0.7	3.5	0.6	1.8
Linaro-related charges	7.0	–	7.0	–	6.9
Exceptional items	–	–	101.3	–	–
Normalised profit from operations	499.7	400.3	350.9	262.9	221.7
Normalised operating margin	51.6%	50.3%	49.1%	45.6%	45.1%
Investment income, net	11.8	11.0	13.1	13.6	8.0
Normalised profit before tax	511.5	411.3	364.0	276.5	229.7
Tax (per IFRS income statement)	(75.1)	(61.1)	(57.8)	(60.3)	(44.3)
Tax impact of above charges	(7.6)	(7.5)	(15.6)	(11.0)	(14.2)
Normalised profit after tax	428.8	342.7	290.6	205.2	171.2
Normalised diluted EPS (pence)	30.2	24.1	20.6	14.7	12.4
IFRS diluted EPS (pence)	23.9	18.0	7.4	11.5	8.2

Financial tables
Analysis of cash and normalised cash flow

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Cash and cash equivalents	40.5	54.1	43.8	46.3	26.8
Short-term deposits and similar instruments	617.8	620.8	544.1	340.0	319.1
Long-term deposits and similar instruments	298.0	191.4	125.6	141.3	83.1
Less: interest accrued	(5.4)	(4.6)	(7.2)	(7.4)	(5.0)
Normalised net cash, at end of year	950.9	861.7	706.3	520.2	424.0
Less:					
Normalised net cash, at start of year	(861.7)	(706.3)	(520.2)	(424.0)	(290.1)
Cash inflow from exercise of share options	(9.4)	(6.8)	(6.0)	(5.6)	(8.5)
Add back:					
Cash outflow from payment of dividends	107.8	86.1	68.9	51.8	42.2
Cash outflow from purchase of own shares	92.2	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 and proceeds on sale of investments)	59.8	16.9	25.6	(8.8)	17.3
Cash outflow from investment in and loans to joint ventures	5.6	–	3.7	7.5	–
Cash outflow from restructuring payments	–	5.1	–	–	–
Cash outflow from other acquisition-related payments	3.5	4.3	4.6	3.8	3.1
Cash outflow from share-based payroll taxes	8.5	8.5	16.3	14.4	12.4
Cash outflow from payments related to Linaro	3.5	3.5	3.5	3.5	3.4
Cash outflow from IP indemnity and similar charges	–	–	41.8	–	–
Normalised net cash generation	360.7	339.9	344.5	267.3	203.8

Consolidated income statement – IFRS

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

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

Financial tables
Consolidated balance sheet – IFRS

For the year ended 31 December	2015 £m	2014 £m
Assets		
Current assets:		
Cash and cash equivalents	40.5	54.1
Short-term deposits and similar instruments	617.8	620.8
Embedded derivatives	6.9	2.6
Accounts receivable	183.7	138.6
Available-for-sale financial assets	23.1	–
Prepaid expenses and other assets	51.6	43.2
Current tax assets	22.9	8.9
Inventories	1.8	2.7
Total current assets	**948.3**	870.9
Non-current assets:		
Long-term deposits and similar instruments	298.0	191.4
Loans and receivables	6.0	3.0
Available-for-sale financial assets	11.6	23.7
Investment in joint venture	2.6	3.0
Prepaid expenses and other assets	1.4	1.7
Property, plant and equipment	61.6	43.4
Goodwill	650.7	567.0
Other intangible assets	92.0	77.2
Deferred tax assets	48.0	55.9
Total non-current assets	**1,171.9**	966.3
Total assets	**2,120.2**	1,837.2

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

Glossary
Key terms explained

Apps	Application software that runs within the chip.	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.
ARMv8	Latest family of ARM processor designs.	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.	Processor	Design of the brain of the computer chip.
Foundry	A foundry is a specialist company that manufactures computer chips on behalf of fabless semiconductor companies. For example TSMC and UMC.	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".
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.	STB	Set-top box.
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.	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.
Licence	A licence is a legal agreement that confers certain rights to our Partners. They pay an upfront free, which is reported as "licence revenue".		

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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Phone: 0871 384 2139
www.equiniti.com

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 the Strategic Report and Directors' report (for the financial year ended 31 December 2015) is consistent with the Group financial statements were both unqualified and can be found on page 50 of the Governance and Financial Report.

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

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