





















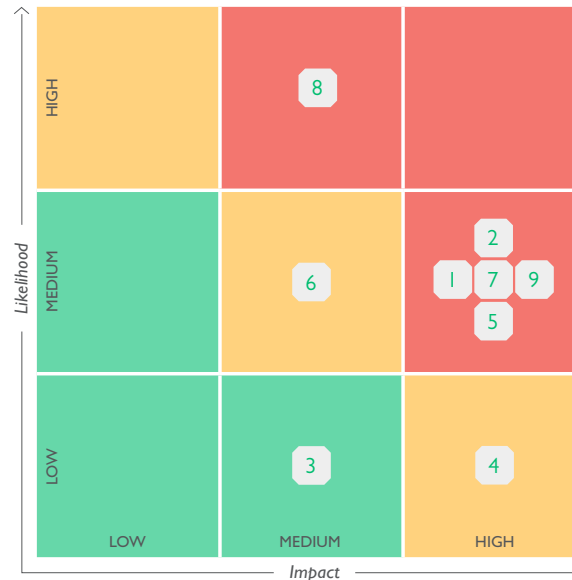


Risk management continued...

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.



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.



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.



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.