

Our business model

How and where we make money

ARM is the world's leading semiconductor intellectual property supplier. The technology we design was at the heart of many of the digital electronic products sold in 2011.

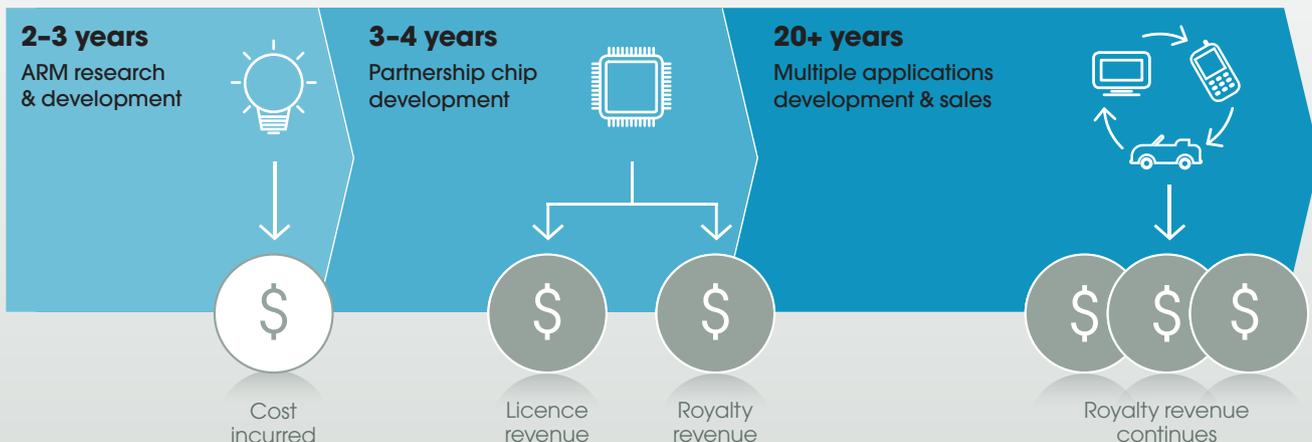
ARM has an innovative business model. We license our technology to a network of Partners, mainly leading semiconductor manufacturers. Our Partners incorporate our designs alongside their own technology to create smart, energy-efficient chips suitable for modern electronic devices.

Our business model

ARM designs technology to go into energy-efficient chips. A processor design can take 2-3 years to develop. In most years, ARM introduces 2-3 new processors that have been designed with a range of capabilities making them suitable for different end-markets.

The companies who choose ARM technology pay an up-front licence fee to gain access to a design. They incorporate the ARM technology into their chip - a process that often takes 3-4 years. When the chip starts to ship, ARM receives a royalty on every chip that uses the design. Typically our royalty is based on the price of the chip.

Each ARM processor and physical IP design is suitable for a wide range of end applications and so can be reused in different chip families addressing multiple markets. Each new chip family generates a new stream of royalties. An ARM design may be used in many different chips and may ship for over 20 years.



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Why semiconductor companies use ARM technology

ARM designs technology that would be difficult and expensive for our Partners' R&D teams to develop for themselves. It is cheaper for them to license the technology from ARM than to develop it internally. The design of a processor or a library of physical IP requires a large amount of R&D investment and expertise. We estimate that each semiconductor company would need to spend over \$100 million every year to reproduce what ARM does. This represents more than \$20 billion of annual costs for the industry. By designing once and licensing many times, ARM spreads the R&D costs over the whole industry, making digital electronics cheaper.

Technologies that are suitable for the ARM business model

ARM's licensing business started in the early 1990s with the development of our first processor. The processor is like the brain of the chip; it is where the software runs and it controls the functionality of the product. ARM designs each processor to be applicable to a broad range of end-markets to maximise the number of Partners that can license each processor and to maximise the number of markets in which the Partner can deploy that technology. In most years ARM introduces 2-3 new processor designs. Over the past 10 years, ARM has developed other technologies suitable for a licensing and royalty business model, such as graphics processors and physical IP components. Both of these technologies are now widely licensed and are delivering royalty revenues.

How ARM creates value

ARM endeavours to recover its costs from the licence revenues of each technology, leaving the majority of royalties to be reinvested back into the business or to be returned to shareholders. Over the medium-term, we expect royalties to grow faster than licence revenues and we expect that revenues will grow faster than costs, making ARM increasingly profitable.

As our customers are the world's largest semiconductor manufacturers, their regular royalty payments have become a highly reliable cash flow. ARM's business model is strongly cash generative.

Our global markets

The majority of ARM's revenues are earned from semiconductor companies that are based all over the world. These companies sell their ARM-based chips to OEMs building consumer electronics, which are also based in all major economies. The OEMs sell their products to consumers and enterprises in every country. ARM's royalty revenues are derived from the chips in these OEM products, and ARM therefore benefits from the growth in all economies and countries around the world.

Demand for consumer products has been growing rapidly, especially in emerging markets such as Brazil and China.

Revenue by destination

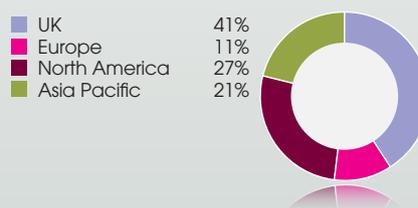
	2011 £'000	2010 £'000	UK	Rest of Europe	North America	Asia Pacific
UK	1,540	3,758	<1%	12%	39%	49%
Europe	59,451	54,553				
North America	189,558	152,553				
Asia Pacific	241,277	195,731				

Consumer products by destination

	Handsets	Consumer Electronics	Computers	Automotive Multimedia
Europe	16%	23%	24%	19%
North America	23%	19%	23%	18%
Asia Pacific	38%	34%	31%	39%
Rest of the World	23%	24%	22%	24%

Source: GfK Digital World produced by GfK Boutique Research in partnership with the Consumer Electronics Association (USA).

ARM employees by location



Read more on how
ARM benefits from
smarter products

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