Annual Report and Accounts 2009

ARM®

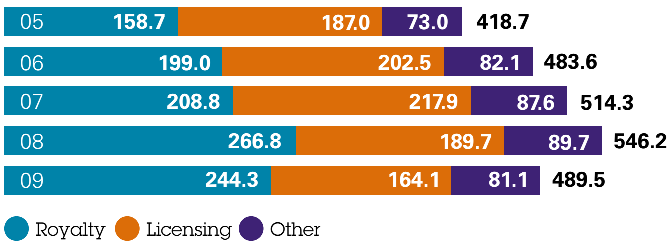
Smarter technology efficiently connecting the digital world

Contents

Financial highlights

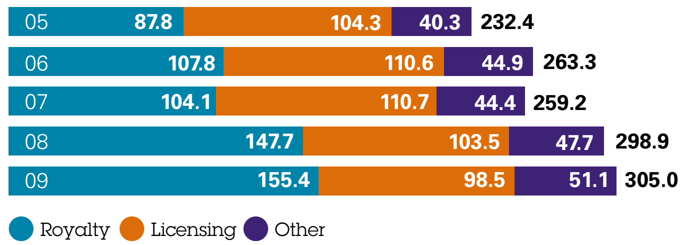
Normalised figures quoted below for operating margin, profit from operations and EPS are non-GAAP measures. For reconciliations of IFRS GAAP measures to normalised non-GAAP measures, see page 20.

Revenue $m



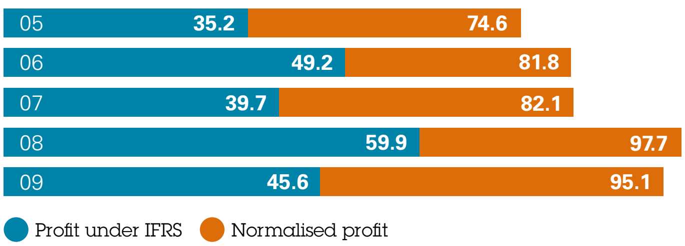
ARM's revenue growth is derived from our customers incorporating ARM technology in more of their product lines.

Sterling revenues £m



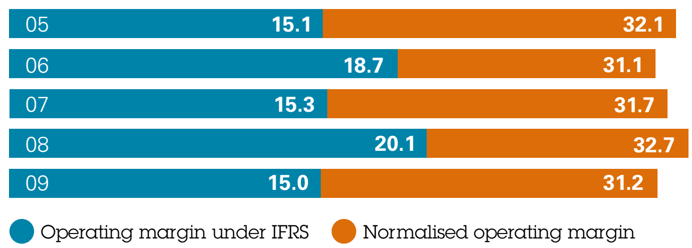
About 95% of ARM's revenues are in US dollars, but only half our costs are US dollar based.

Profit from operations £m



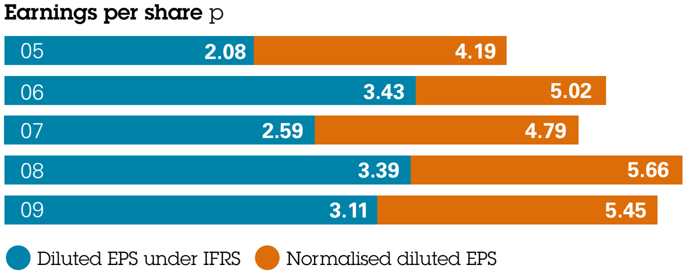
Operating leverage drives ARM's profitability.

Operating margin %



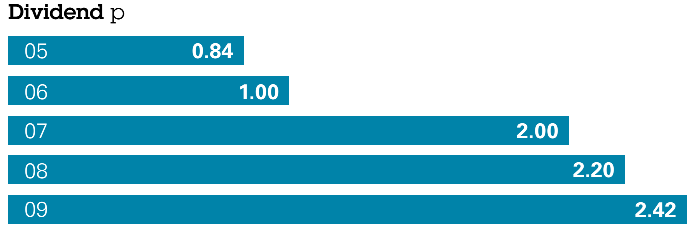
ARM's financial discipline balances long-term R&D investment with cost control.

Earnings per share p



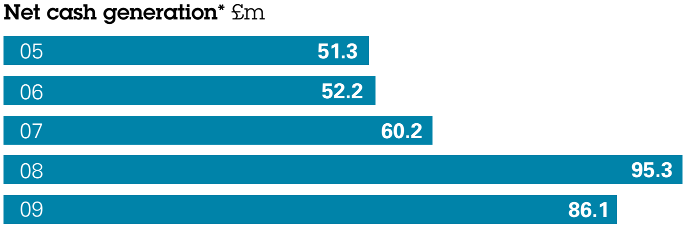
ARM has no debt, so all of our post-tax operating profit drops through to EPS.

Dividend p



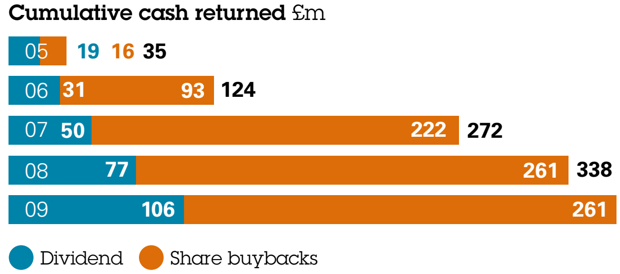
ARM has a progressive dividend policy, growing dividends in line with our expectations of medium-term EPS growth.

Net cash generation* £m



Net cash at the end of 2004 was £143 million. Regular licences and robust royalties deliver a reliable cash flow.

Cumulative cash returned £m



Reliable cash generation allows for cash to be returned to shareholders.

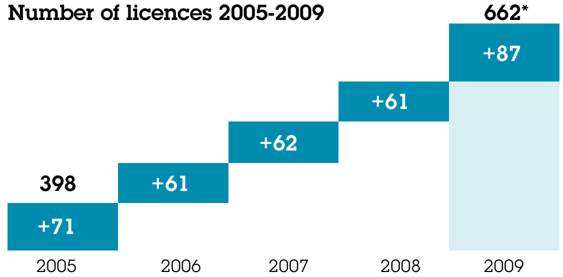
* Net cash generation is defined as movement on cash, cash equivalents, short-term investments and marketable securities, adding back share buybacks, dividend payments, investment and acquisition consideration, restructuring payments, other acquistion-related payments and share-based payroll taxes, and deducting inflows from share option exercises and proceeds from investment disposals. See page 20.

ARM at a glance

Licensing

ARM is building a base of licences that will deliver long-term royalty growth.

Number of licences 2005-2009



*Adjusted for licences that are no longer expected to generate royalties.

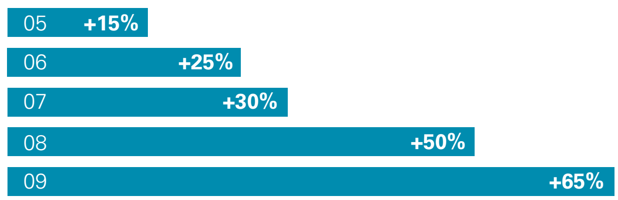
In 2009, we signed a record 87 licences. This takes the licensing base to more than 660 licences that represent potential future streams of royalty revenue.

Mobile

ARM is growing the value we receive from every mobile phone shipped.

ARM-based chips can be found in the majority of the phones sold in 2009. The smarter the phone, the more ARM-based chips it is likely to contain and the more revenue ARM receives per phone. In 2009, as the mix of phones included a higher proportion of smartphones, the number of ARM-based chips per mobile phone rose to an average of 2.1, and the value ARM receives per mobile phone also increased.

Growth in ARM royalty revenue per mobile phone handset* %



*As a proportion of handset average sales price compared to 2004.

Non-mobile

ARM is growing share in non-mobile markets such as digital TVs, hard disk drives (HDD) and microcontrollers.

ARM technology is becoming increasingly applicable in a broad range of end-markets including:

Hard disk drives

65%
market share in 2009
Up from 55% in 2008

Leading HDD manufacturers are using ARM technology as disk capacity and density increases and so the chips controlling the disks need to become smarter to read the data off the disk.

Beyond processors

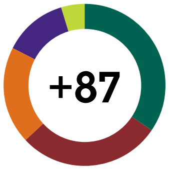
ARM is investing in technologies that will support a similar business model to processors, i.e. an upfront licence fee and an on-going royalty stream.

Physical IP
ARM develops physical IP for leading semiconductor companies. During 2009 we demonstrated the first ARM processor manufactured at 32nm, started delivering 32nm technology to customers and signed up leading foundry and fabless semiconductor companies for the next generation of ARM's physical IP.

Video and graphics IP
ARM develops video engines and graphics processors to be integrated alongside an ARM processor in a chip – generating an additional royalty stream from each chip.

The future opportunity

Semiconductor companies bought these licences to use ARM technology in a broad range of end-markets.



Mobile	30
Embedded	25
Enterprise	17
Home	11
Multiple	4

The strong licensing in 2009 was driven by:

- ARM customers continuing to invest in R&D programme.
- ARM introducing three new processor products, taking ARM into new markets.
- ARM mainstream products being deployed to a broadening range of applications.

Opportunity pipeline

- Opportunity pipeline for 2010 has a broad range of quality companies looking to start new ARM-based programmes.
- There is always a risk of licensing deferral in any quarter, but this risk is returning to normal levels.

New products and new markets

- ARM is introducing at least three new processors in 2010, taking ARM technology into more new applications.
- Consumer electronics continue to require smarter chips, making ARM technology applicable to more end-markets.

Mobile computing

Mobile computing is a rapidly growing market with new products being introduced such as netbooks, e-books, smartbooks and internet tablets.

Semiconductor manufacturers have announced chips based on ARM technology for this new market.

Software developers have launched operating systems, browsers and plug-ins bringing a PC-class experience to ARM-based chips. For example, Adobe has announced Flash 10 support for ARM technology and Mozilla have announced the Firefox browser for ARM.

Computer manufacturers have developed advanced handsets and mobile computers utilising ARM technology including Dell, Google, Lenovo, HP and Sharp.

More smartphones and smarter smartphones

- As the mix shift in the mobile phone market increasingly moves towards the smartphone, and as smartphones get smarter, then ARM's revenue per phone will continue to increase.

Basic phones are getting smarter too

- High volume phones are also becoming more capable – they will become more connected with Bluetooth and WiFi – and their functionality will improve with better cameras and multimedia.

Smartphones are evolving into mobile computers

- More ARM-based mobile computers will be announced in 2010 and will be always-on, always-connected so you can take the internet with you everywhere.

Digital TV and set-top box

30% market share in 2009

Up from 25% in 2008

ARM-based chips are used to decode the TV signal, improve image quality, and to display and control the electronic programme guide. High-end digital TVs are also using ARM technology to connect to the internet and to become a PC in your living room.

Microcontrollers

6% market share in 2009

Up from 4% in 2008

Consumers are demanding more efficient and more capable electronic products from white goods to cars to heating and lighting. ARM is well positioned to be the universal platform used in smart chips for all these electronic products.

Hard disk drives

- All leading HDD manufacturers have ARM-based product lines, and are looking to use ARM technology in their future designs. The hard disk drive could be the next market where ARM achieves a market penetration of over 80%.

Digital TVs

- As digital TVs become internet-connected, they can adopt the ARM architecture to take advantage of the ecosystem of software already available for ARM.

Microcontrollers

- ARM's market share gains look set to continue with many leading microcontroller manufacturers announcing new ARM-based product lines.

	Number of licences in 2009	Base of licences by end of 2009	Royalties in 2009
Physical IP	8*	68*	Twelve of the top 20 semiconductor companies used physical IP in their chips driving royalties through the foundries.
Video and graphics IP	13	26	Four leading semiconductor manufacturers paid royalties on ARM video and graphics IP.

* Physical IP licences refer only to royalty generating platform licences.

Physical IP

During 2010 ARM will continue to develop the roadmap of 32/28nm physical IP components. We expect lead customers to manufacture their first chips at 32nm in 2010, with royalties starting in 2011.

Video and graphics IP

During 2010 ARM will introduce new multimedia technology for licensing and we expect more semiconductor companies to start shipping chips based on ARM's video and graphics technology into smartphones, mobile computers, digital TVs and other consumer electronic applications.

How ARM makes money

ARM is the world's leading semiconductor intellectual property (IP) supplier. The technology we design was at the heart of many of the digital electronic products sold in 2009.

ARM has an innovative business model. Instead of bearing the costs associated with manufacturing, we license our technology to a network of Partners, mainly leading semiconductor manufacturers and OEMs (Original Equipment Manufacturers). These Partners incorporate our designs alongside their own technology to create smart, low energy chips suitable for modern electronic devices.

Why semiconductor companies use ARM technology

ARM designs technology that once would have been developed by the R&D teams inside each company in the semiconductor industry. ARM has demonstrated that it is cheaper to license technology than to continue in-house development. The design of an ARM processor requires a large amount of R&D investment and expertise. We estimate that every semiconductor company would need to spend between $50 million and $150 million every year to reproduce what ARM does. This represents an additional $20 billion of annual cost for the industry. By designing once and licensing many times, ARM spreads the R&D costs over the whole industry and thereby helps make digital electronics cheaper.

Technologies that are suitable for the ARM business model

ARM's technology licensing business started in the early 1990s with the development of the first ARM processor. The processor is like the brain of the chip, it is where the software runs which controls the functionality of the chip and the product that the chip is in.

In most years ARM introduces new processor designs for our customers to license. In recent years ARM has also started developing other technologies that are suitable for a licensing and royalty business model, such as graphics processors and physical IP components.

How ARM creates value

ARM aims to recover its costs from the future licence revenues of each new technology. This would leave the majority of royalties as profits. Over the medium term, we expect royalties to grow faster than licence revenues.

ARM expects dollar revenues to typically grow faster than the semiconductor industry

In the medium term, we expect that revenues will grow faster than costs, making ARM increasingly profitable and leading to margin expansion. In the medium term, ARM expects normalised operating margins to expand.

In the medium term, ARM expects normalised operating margins to expand

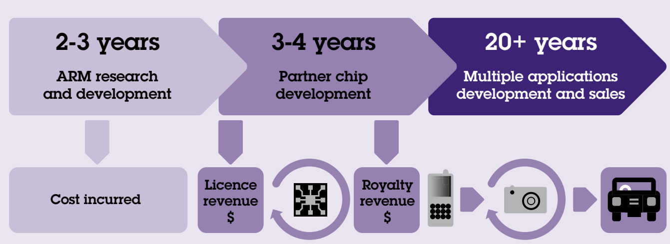
As our customers are the world's largest semiconductor manufacturers, their regular royalty payments have become a highly reliable cash flow. Given our broad base of Partners and end-markets, ARM is not overly reliant on any one company or consumer product for its future profits and cash.

ARM's business model is strongly cash generative. In 2009 we generated £86 million of cash. Since 2004, ARM has returned over £360 million of cash to shareholders through a mixture of share buybacks and dividends.

How ARM makes money

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



Our strategy for growth and how we measure progress

ARM's strategy is for our technology to gain share in long-term structural growth markets, such as mobile phones, consumer electronics and embedded digital devices.

ARM growth drivers

We focus on three drivers to deliver long-term and sustainable revenue growth:

1. **Increase penetration in markets where ARM technology is particularly applicable; to gain a royalty from chips in each consumer product.**
2. **Increase the value to ARM per product sold; to maximise the number of ARM-based chips in every device.**
3. **Extending ARM's business model to additional types of technology, generating multiple royalty streams from each chip.**

1. Increase market penetration

ARM has achieved a high penetration in some markets such as mobile handsets. We believe that the same level of market penetration is possible in other application areas as ARM technology becomes increasingly applicable to a broader range of end-markets such as digital TVs, hard disk drives and microcontrollers.

It took ARM ten years to gain a high penetration in mobile phones and although the rate at which each market will adopt ARM technology may be different, the underlying market dynamics are similar. See page 4 for an explanation of the how the entire ecosystem benefits as ARM gains market share.

2. Increasing ARM value per device

As consumer products become smarter they may contain multiple ARM-based chips, each chip providing additional royalty revenue. A typical smartphone can contain three ARM-based chips, and as chips in a smartphone tend to be more expensive than in a basic phone, ARM can receive 6-7 times more royalty per smartphone compared to a voice-only phone. As other consumer electronics products become smarter and more connected they may also contain more ARM-based chips.

3. Extending the business model to additional technologies

To generate multiple royalty streams associated with each chip ARM has introduced a series of new technologies which we believe can command an upfront licence fee and an ongoing royalty. Over the last few years ARM has introduced two major new technologies that fit this criteria.

Physical IP provides the building blocks for developing system-on-chip implementations prior to manufacturing. Media processors provide specialist on-chip components for accelerating 3D graphics and efficiently encoding/decoding high definition video.

Key performance indicators (KPIs)

ARM's progress against our strategy can therefore be measured against the following KPIs:

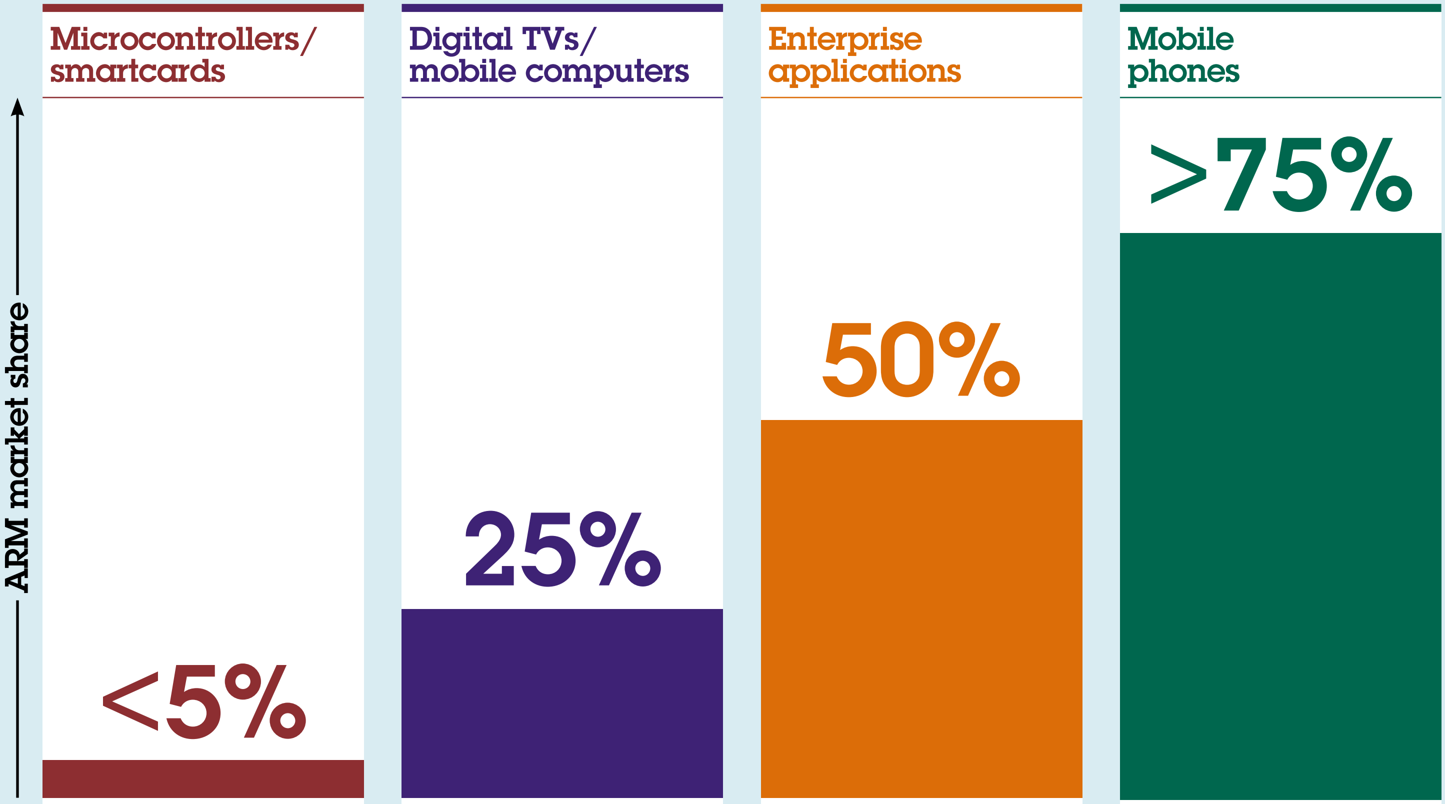
Building the base of licences that will drive future royalties	See page 5
Growing the number of ARM-based chips	See page 6
Increasing the value that ARM gets for every mobile handset sold	See page 6
Increasing ARM's penetration in target end-markets	See page 7
Developing new technology to generate additional royalty streams	See page 7
Growing normalised operating margin, EPS, cash generation and dividends	See page 8

Our progress against these KPIs can be seen in the section 'How we performed this year' on page 5.
For details on our corporate responsibility KPIs, please refer to pages 37 to 39.

Industry dynamics as ARM gains market share

ARM has a different share in each of its target end-markets. However, ARM has observed broadly similar dynamics in each end-market as our customers increase penetration. In some applications pioneers need support as they enter a new market for the first time. In other markets ARM technology has gradually become accepted as a universal platform enabling our customers freedom to innovate and diversify.

ARM gaining market share benefits the whole ecosystem from chip developers to software engineers to consumers.



Pioneering into new markets

Partners may start using ARM technology either because an existing end-market has changed, requiring smarter electronics, or a new market emerges that requires more intelligent chips. ARM creates the technology and an ecosystem to support developers entering the market for the first time.

Growing the ecosystem

Partners may switch to ARM technology when they can take advantage of the growing ecosystem of software and tools. ARM accelerates this adoption by coordinating the ecosystem and developing common standards.

Economies of multi-sourcing

With multiple suppliers of ARM-based chips OEMs benefit from reduced costs as software and software tools can be reused across multiple projects. Also, engineers do not need to be retrained as they move between chips from different suppliers.

Innovating on a universal platform

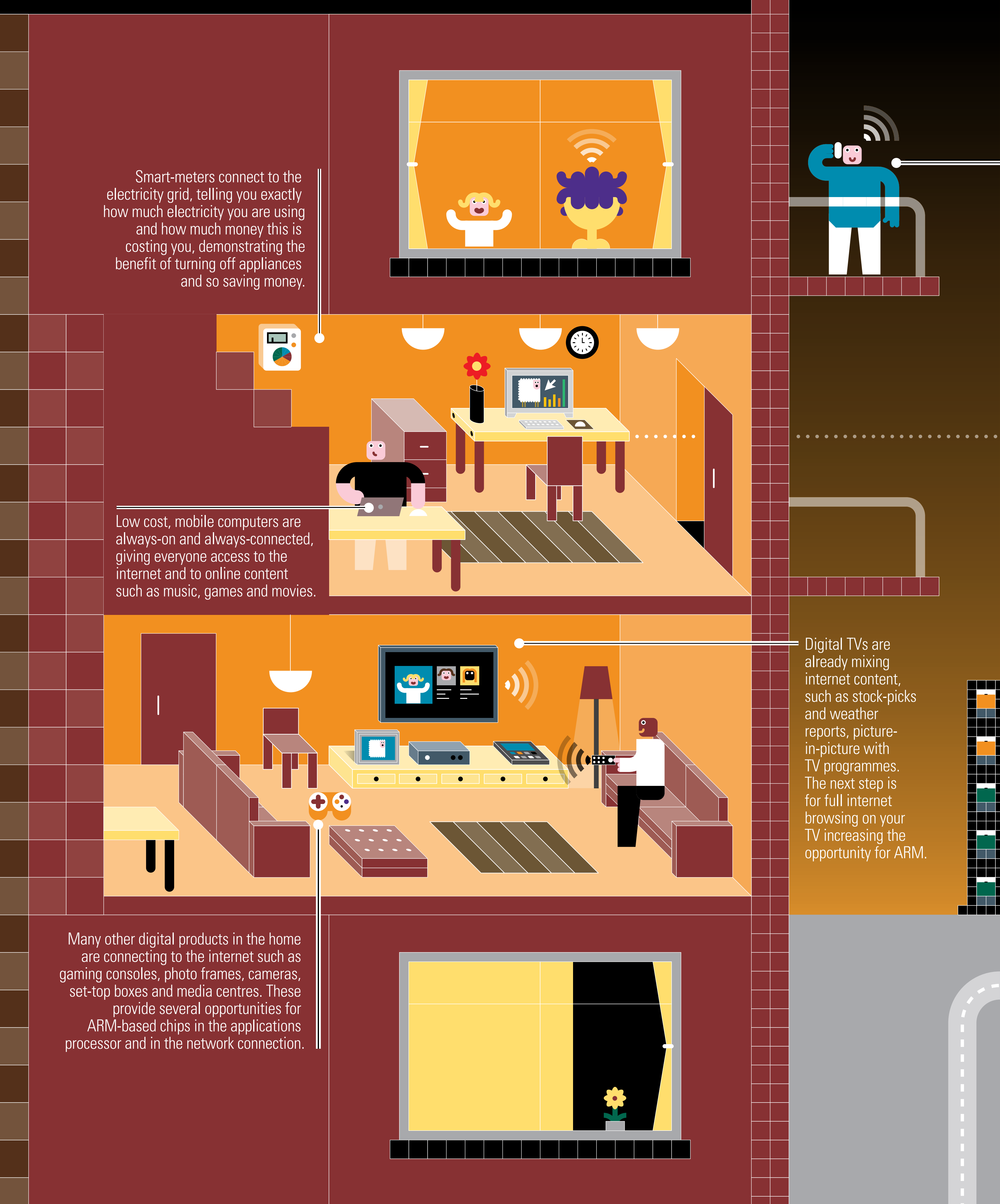
When many companies are developing around a shared common platform, the cost to develop new products is at its lowest. This enables markets to be highly innovative and encourages diversity.

How smart technology can make the world a better place

Increased use of technology is helping to make:

- Connections between people, where everyone is available whenever they want to be.
- A more sustainable society, which makes efficient use of resources.
- The world safer, simpler and more enjoyable for all.

These trends are benefiting ARM as we design the technology in many of the world's intelligent chips.



Smart-meters connect to the electricity grid, telling you exactly how much electricity you are using and how much money this is costing you, demonstrating the benefit of turning off appliances and so saving money.

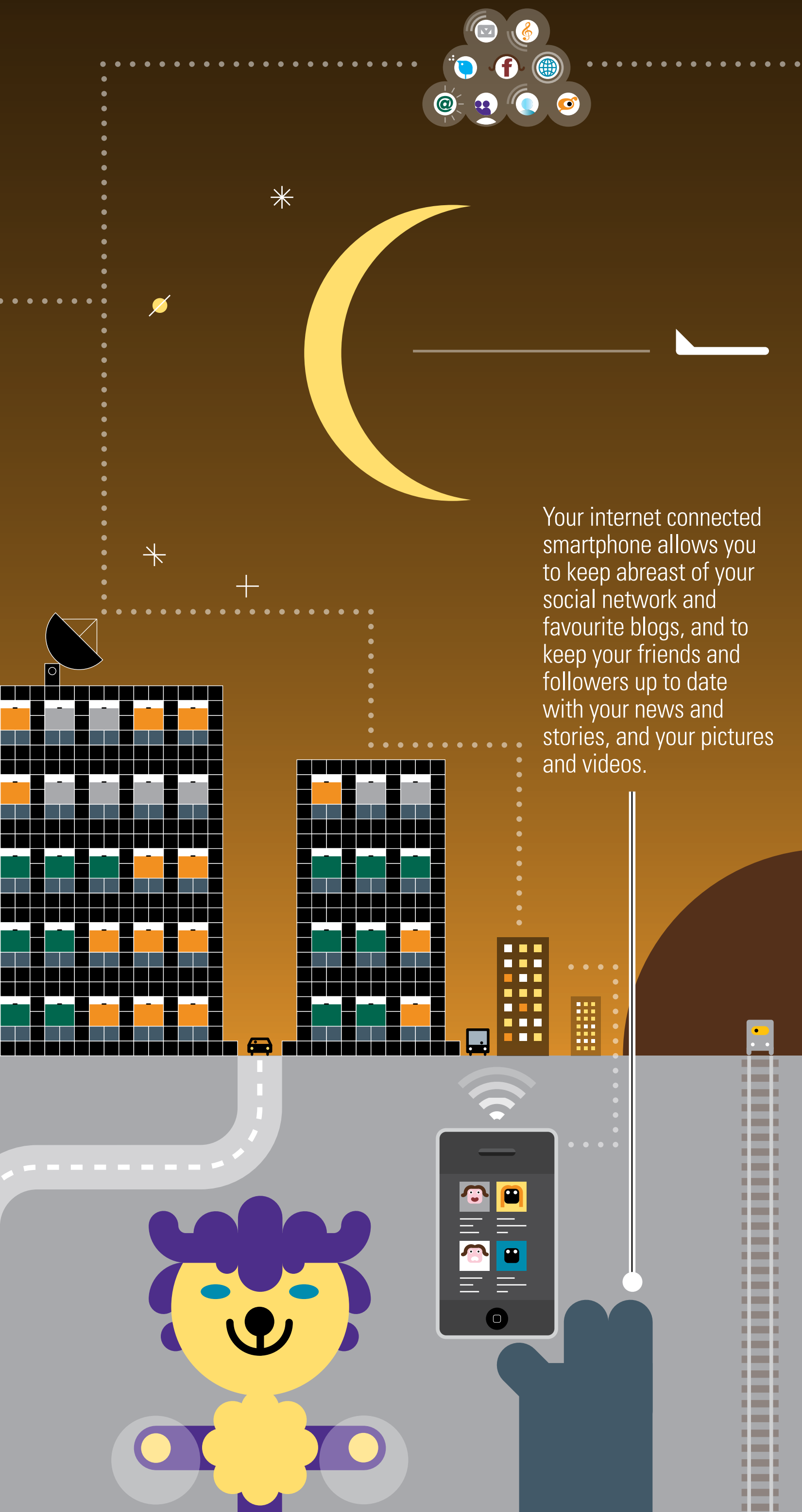
Low cost, mobile computers are always-on and always-connected, giving everyone access to the internet and to online content such as music, games and movies.

Digital TVs are already mixing internet content, such as stock-picks and weather reports, picture-in-picture with TV programmes. The next step is for full internet browsing on your TV increasing the opportunity for ARM.

Many other digital products in the home are connecting to the internet such as gaming consoles, photo frames, cameras, set-top boxes and media centres. These provide several opportunities for ARM-based chips in the applications processor and in the network connection.

ARM technology can be found in many of the consumer electronics products that connect us to the internet and to each other.

ARM technology can be found in the majority of the world's phones. A typical smartphone contains about three ARM-based chips and the smarter the phone the more ARM technology it is likely to contain.



Your internet connected smartphone allows you to keep abreast of your social network and favourite blogs, and to keep your friends and followers up to date with your news and stories, and your pictures and videos.

Technology connecting us to each other

ARM technology can be found in many of the consumer electronics products that connect us to the internet and to each other.

Smartphones and mobile computers can contain several high-performance ARM-based chips, connecting them wirelessly to the internet, and also running internet browsers and e-mail tools.

As ARM-based chips are inherently low-power, this enables you to be always-on and always-connected.

ARM technology can already be found in digital TVs, decoding the TV signal and displaying the electronic programme guide. As TVs increasingly become internet connected ARM is proving to be suitable technology as the ARM ecosystem offers all the required browsers, operating systems and plug-ins.

Our homes can digitally connect to the internet to make them more energy efficient; smart-meters are linking into smart-grids to keep track of electricity usage in the home and to co-ordinate the use of our energy when the electricity is at its cheapest.

The diversity and innovation of the companies using ARM-based technologies can be demonstrated as they continually invent new ways to connect us together using a broad range of product categories and form factors.

How STMicroelectronics is enabling the digital TV to bring full internet into our living rooms

The TV in today's digital home displays content received from the main television networks. Some high-end TVs are beginning to mix this content with information from the internet such as weather reports and stock market data. High end TVs are also able to offer full internet browsing, navigating to any webpage and displaying content from online portals such as YouTube or BBC iPlayer.

STMicroelectronics (ST) is the global leader in providing chip designs for set-top boxes and digital TVs, with about a 30% market share*.

ST has adopted the ARM Cortex-A9 processor for its next generation of chips that will deliver both HDTV display and all the internet using PC-class operating systems and browsers, and Adobe® Flash® technology.

ST will integrate the ARM Mali-400 MP graphics processor into their chips to meet the growing demand for exciting new graphical user interfaces and the needs of increasingly sophisticated web-based services.

"Building our next-generation HDTV consumer devices around the high-performance ARM architecture will enable us to continue to deliver best-in-class devices for our customers. In addition, our customers now gain access to the broad ARM ecosystem of support around the processors."
Philippe Lambinet, executive vice president, Home Entertainment and Display Group, STMicroelectronics

"Sky welcomes the collaboration between ST and ARM to provide cost-effective, low-power set-top box technology. Reducing power consumption across our business is a key pillar of Sky's strategy – utilising the lowest power technology in our set-top boxes is a vital element of this ongoing strategy."
Roger Lambert, Engineering Director, BSkyB

"Flash Player 10 is essential to deliver rich, compelling web content on advanced consumer devices. ST and ARM are enabling the underlying hardware platform to deliver the full Flash experience to consumer entertainment systems."
Danny Winokur, senior director, Business Development, Platform Business Unit at Adobe

*iSuppli, September 2009.

Electric motors are responsible for more than half of electricity consumption. Smarter motors use more efficient control algorithms that can halve the energy consumed by each motor.
LIFT
EXIT
Lighting in homes and offices has the second largest global energy usage. Smart lighting systems know where people are and ensure the areas are well lit, but do not stay on when not needed, and so reduce energy use.
Smart washing machines know how much water and detergent are required to clean clothes, depending on how dirty the clothes are. They also spin the drum more efficiently, reducing the electricity bill.

ARM technology is making products smarter so they use resources more intelligently and efficiently.

Much of the internet is run on large computers, containing hundreds of processors, hosted in 'server farms'. These need a huge amount of electricity to power the computers and to power the air-conditioning to keep them cool. Low-power ARM-based servers would require less energy to power the computer and much less air-conditioning.

Smart-grids communicate with the smart-meters in the home, giving the current price of electricity. This enables energy hungry white goods such as washing machines and dishwashers to switch on when electricity demand is low, and energy costs are therefore reduced.

Enabling more sustainable communities

ARM technology is making products smarter so they use resources more intelligently and more efficiently. This is not just in the home, but also in business and in the 'brain' of the internet.

In the home, we can reduce our energy and water consumption by choosing more efficient appliances. For example, ARM-powered smarter washing machines can fill with just the least amount of water and detergent that is necessary depending on how dirty the clothes are. The drum of the washing machine can be spun with advanced motor controllers that use less than half of the energy of older types of motors (making them quieter too) and by linking up to the smart-grid, the washing machine knows when the electricity is at its cheapest and so it costs less money to complete the wash.

Businesses are using smart ARM-based chips in building controls to reduce electricity consumption. This ranges from sensors that turn off lights when no-one is around, to more efficient motors in air-conditioning and lifts and to remote control for PCs to make sure they are turned off at night.

Some ARM Partners are also looking at how ARM's low-power technology can be used to reduce the power consumption in the big server farms that run many applications on the internet. By replacing power-hungry super-computers with many low-cost, low-power grids of ARM-based chips it is believed that we could substantially reduce power consumption.

How Dell is reducing energy consumption without compromising the PC experience

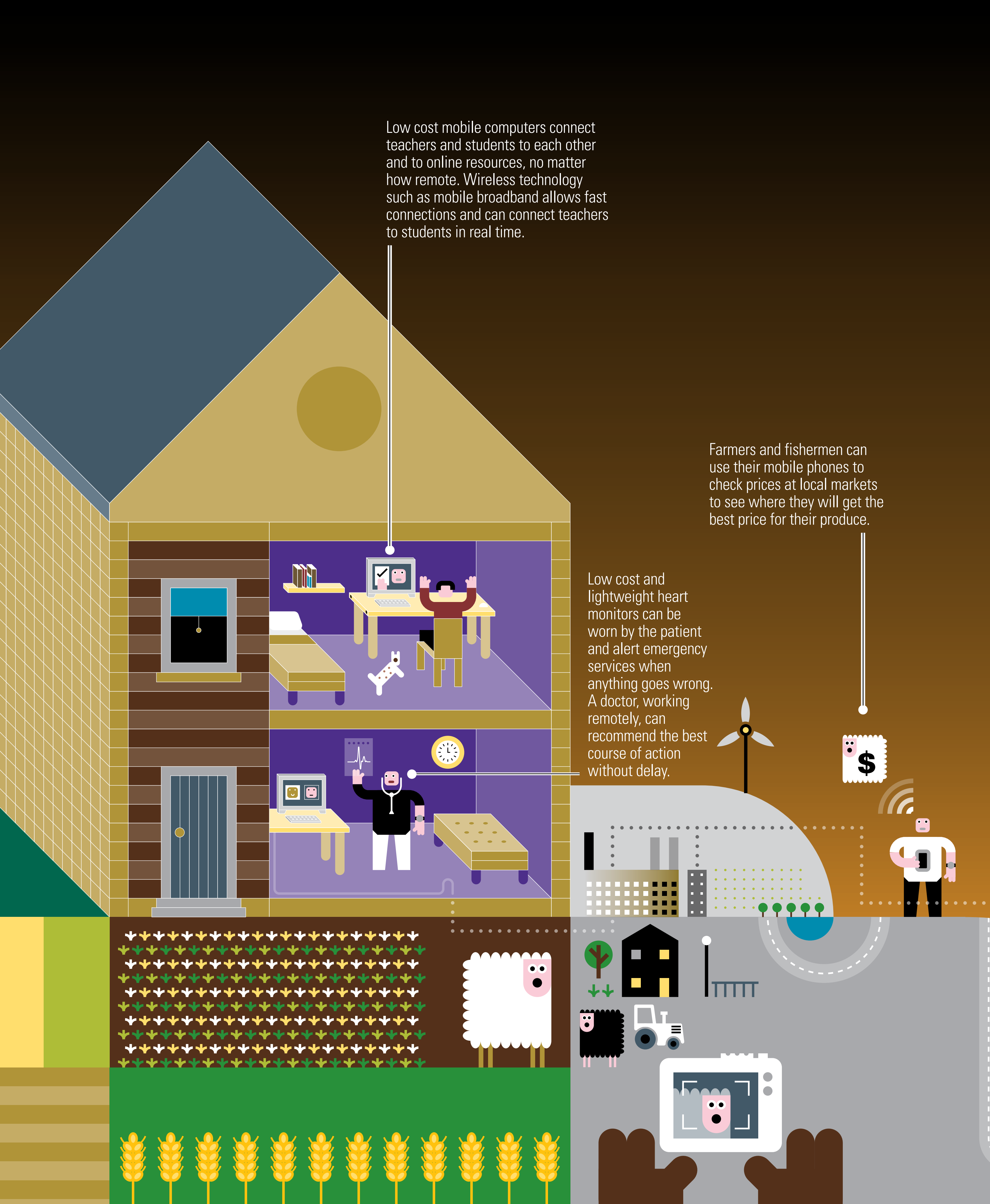
The Dell Latitude Z600 comes with a 'Latitude ON' button. Pressing this button enables the Dell Latitude ON communication module which gives instant access to e-mail, calendars and to the internet without booting or waking your entire laptop – lowering power consumption and extending battery life.

The communication module is based on a dedicated low-voltage ARM processor (Texas Instrument's OMAP 3430 processor) that runs a slimmed-down version of a Linux OS (Operating System). It allows you to boot into a contained OS environment to give you always-on access to the internet, over WiFi, and critical business information while using a fraction of the battery power your laptop uses when it's running a full OS. Essentially, you can quickly access all the information you're used to accessing on a smartphone using the larger screen and keyboard that your laptop provides.

Dell Latitude ON provides:

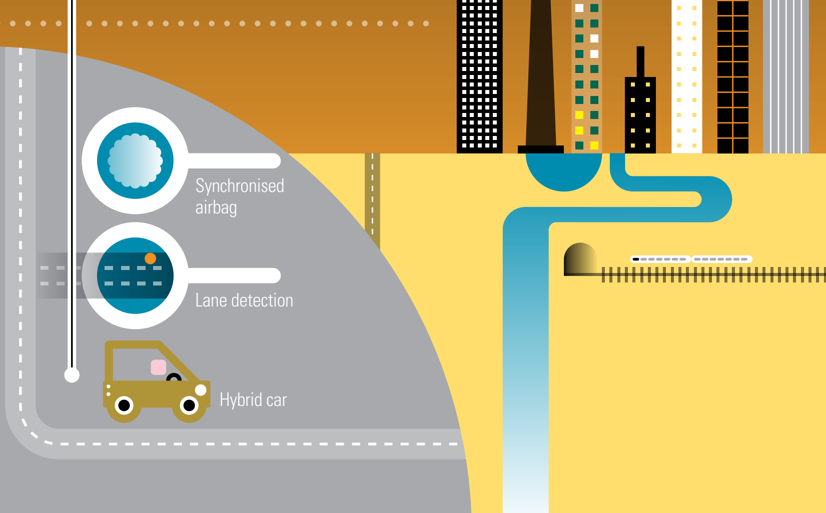
- Instant access (about two seconds) to business information such as e-mail, calendar, contacts and Internet browser.
- MS Exchange integration or POP e-mail access.
- Always-on and always-connected – the module continues to run regardless of the state of the main OS.
- Ability to view MS Office and .pdf document attachments.
- Long battery life (about 17 hours on a six-cell battery).

"Using an ARM-based chip in a Dell Latitude Z600 enables business professionals to be always-on and always-connected to the internet and to their critical information, without needing to worry about the battery running out during the day."
Robert Thompson, Senior Product Manager, Dell


Low cost mobile computers connect teachers and students to each other and to online resources, no matter how remote. Wireless technology such as mobile broadband allows fast connections and can connect teachers to students in real time.
Farmers and fishermen can use their mobile phones to check prices at local markets to see where they will get the best price for their produce.
Low cost and lightweight heart monitors can be worn by the patient and alert emergency services when anything goes wrong. A doctor, working remotely, can recommend the best course of action without delay.
$

Smart technology is making life safer, simpler and more enjoyable for all.

Smarter cars are safer with driver assistance for lane detection, steering in difficult driving conditions and anti-lock brakes, and with intelligent synchronized airbags to help prevent harm to passengers in case of an accident. Smarter engines in cars are also more fuel efficient, especially with the introduction of multi-fuel engines.



Creating smart chips through a smart network of companies

Smart technology can make life safer, simpler and more enjoyable for all, but only if the chip has been well designed and if the product, or service, it goes into has been thoughtfully developed with the end-customer in mind.

Designing a smart chip to go into a smart-meter, a more intelligent washing machine or mobile computer requires the collaboration of many specialist companies and teams of engineers from many disciplines. ARM sits at the nexus of a series of industry collaborations and helps these teams work effectively and efficiently together.

ARM partners with hundreds of semiconductor designers and manufacturers to more effectively create the next generation computer chip; we partner with software and tools vendors so efficient and optimised software can be written for that chip; and we partner with content designers and distributors so that video, music, games and information can bring the final product to life.

It is more efficient for a network of specialist companies to work closely together, rather than for one company to try to do it all themselves, as long as the entire team is developing solutions around a common foundation. In our industry that common foundation is the ARM architecture. The semiconductor industry has been disaggregating for nearly 40 years from inefficient monolithic corporations to networks that form and reform to meet the challenges of a fast changing and highly innovative industry.

ARM's continuing collaboration to develop higher performance and lower power devices

In last year's annual report we described how ARM was working with IBM, Chartered and Samsung to develop technology around the 32/28nm process node. During 2009, ARM and its Partners have further extended the partnership with the addition of GLOBALFOUNDRIES and leading EDA companies, to develop optimised chips on a 28nm manufacturing process.

The companies have announced that ARM will develop a comprehensive physical IP 28nm design platform for the GLOBALFOUNDRIES 28nm High-K Metal Gate manufacturing process. This agreement includes the creation of optimised ARM processor implementations that will enable the companies' mutual customers to build chips both for high-performance and low-power implementations. With a robust infrastructure and industry ecosystem we are the stewards of maintaining long-term sustainability in the embedded marketplace.

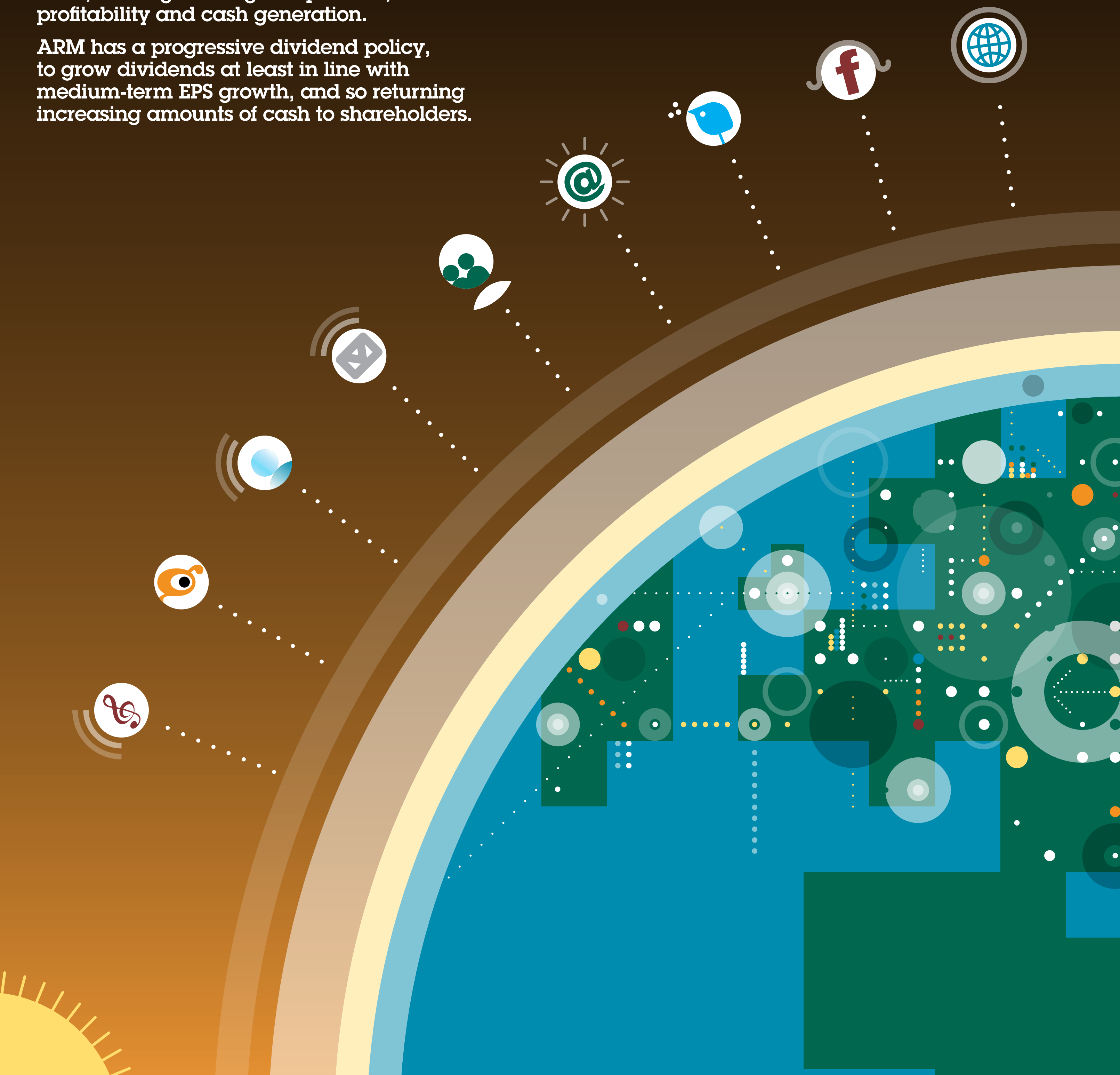
"This collaboration with ARM further enhances our focus and leadership in delivering manufacturing and technology excellence at the leading edge. This highly complementary partnership leverages ARM's architectural leadership along with GLOBALFOUNDRIES' advanced technology and production capabilities to enable the deployment of 28nm SoC designs with exceptional performance for next-generation consumer devices."
Doug Grose, chief executive officer, GLOBALFOUNDRIES

Your investment in ARM

More demand for smart products across the world results in increased opportunity for ARM's designs as we provide the technology in many of the world's intelligent chips. As these smarter products are developed and sold, ARM's revenues increase.

ARM expects revenues to grow faster than costs, leading to margin expansion, increased profitability and cash generation.

ARM has a progressive dividend policy, to grow dividends at least in line with medium-term EPS growth, and so returning increasing amounts of cash to shareholders.



How we performed in 2009

Throughout 2009 ARM demonstrated the resilience of its business model by outperforming the semiconductor industry. Despite industry revenues being down 20% in the relevant period, ARM's dollar revenues declined 10% as we continued to gain market share, and made progress on our strategy. Outperformance looks set to continue as we further build the base of licences that will drive long-term royalty growth.

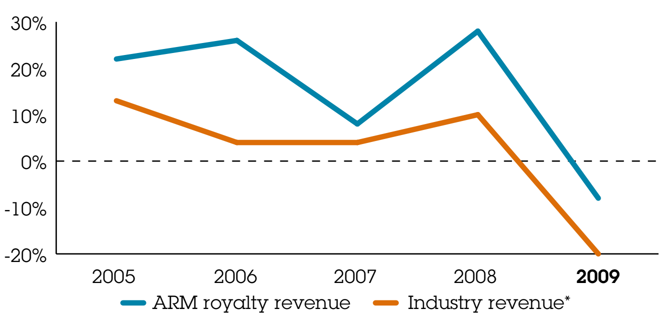
Industry context in 2009

2009 was a difficult year for the semiconductor industry. At the beginning of the year, analysts were forecasting a 30% decline in full-year semiconductor revenues. This forecast presented a challenge for the semiconductor manufacturers; although they wanted to continue their R&D programmes, building the chips that would drive revenue in 2011 and beyond, reduced revenues meant that these R&D programmes would have constrained budgets.

In H1 2009, due to uncertainties about the duration of the recession, manufacturing of new chips fell to very low levels and inventories rapidly declined throughout the supply chain. In the second half of the year, increasing sales of consumer electronics, initially in China, but then also in the rest of the world, started to result in improved sales by ARM's semiconductor Partners.

ARM receives royalty payments one quarter in arrears, and reported royalties reflected the shape of the industry downturn. However, royalty revenues declined less than the industry as ARM gained share in target markets.

ARM royalty revenue vs semiconductor industry revenue



* Industry revenues shifted one quarter to align with ARM's royalty reports.

Even in the downturn ARM royalty revenues outperformed the industry

Licensing revenues are driven by on-going R&D programmes. These programmes continued, but with limited budgets, and ARM signed more licences with constrained licence terms. These licences have a lower up-front cost, but higher future royalties.

KPI: Building the base of licences

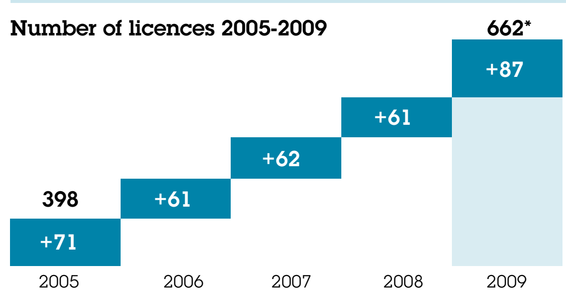
Every licence represents the opportunity for a future royalty stream. In most years ARM adds between 60-70 processor licences to its existing base of licences.

In 2009, we signed 87 processor licences, the highest number signed in a year. This takes the licensing base to more than 660 licences.

The strong licensing in 2009 occurred as many ARM customers looked through the downturn at the products they needed to develop for sales in 2011 and beyond. ARM also introduced three new processor products that took ARM into new markets such as mobile computing and very cost-sensitive microcontrollers.

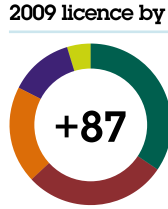
ARM technology is becoming more broadly applicable as digital electronics continue to demand smarter chips to control the world in which we live. ARM continues to see licensing and design wins within mobile products, but increasingly ARM is being designed in other non-mobile applications such as digital TVs, disk drives and microcontrollers.

Number of licences 2005-2009



*Adjusted for licences that are no longer expected to generate royalties.

2009 licence by target market



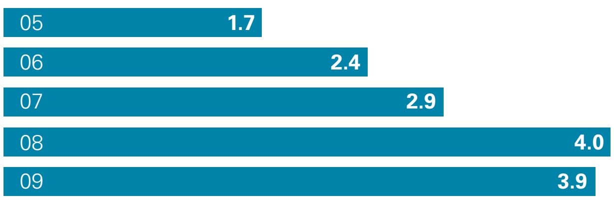
Mobile	30
Embedded	25
Enterprise	17
Home	11
Multiple	4

KPI: Growing the number of ARM-based chips

In 2009, ARM's customers reported 3.9 billion chips shipped, only a small decline on 2008, despite a 20% decline in the semiconductor industry over the relevant period.

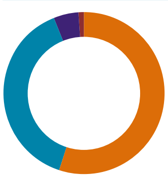
This demonstrates ARM's ability to gain market share even during a downturn in the industry. In 2008 ARM had a 23% market share and in 2009 this rose to 26%.

Total number of chips reported as shipped billions



ARM-based chips started shipping in the early 1990s and by the end of 2009, ARM's Partners had shipped a total of more than 18 billion chips.

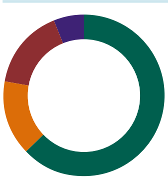
Processor family 2009 unit shipments



ARM7	55%
ARM9	39%
ARM11	5%
Cortex	1%

ARM7 and ARM9 continue to account for the bulk of current ARM-based chips. ARM11 shipments grew 50% compared to 2008 and Cortex shipments now comprise 1% of total ARM shipments.

End-market 2009 unit shipments



Mobile	63%
Enterprise	15%
Embedded	16%
Home	6%

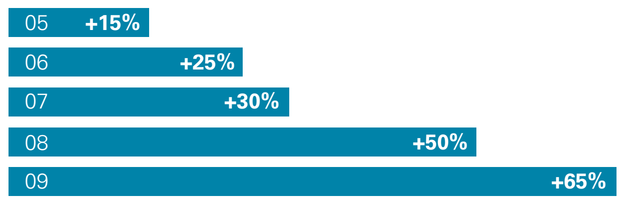
Shipments of ARM-based chips into mobile devices have comprised about two-thirds of overall shipments since 2005, but we are now beginning to see non-mobile start to increase as a proportion as ARM technology is increasingly being used in consumer and embedded products such as hard disk drives, digital TVs and microcontrollers.

KPI: Increasing value per mobile phone

During 2009, although the overall number of mobile phones sold declined, the number of smartphones sold increased by 15%.

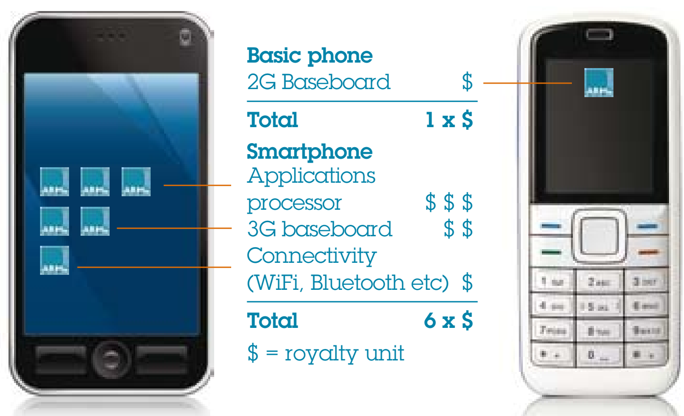
Smartphones have more chips per phone than basic phones and this has helped to increase the average number of ARM-based chips per phone to 2.1 from 1.9 in 2008.

Growth in ARM royalty revenue per mobile phone handset* %



*As a proportion of handset average sales price compared to 2004.

Smartphone chips also have a higher price than basic phones. More chips and higher priced chips is increasing the value ARM gets per phone.



As smartphone shipments continue to grow strongly, the number of ARM-based chips going into mobiles devices looks set to increase.

6x
More royalty from a smartphone

ARM receives about six times more royalty from a smartphone than from a voice-only phone, as a smartphone contains more ARM-based chips than a basic phone, and the chips are higher value so the royalty derived from each chip is higher.

Developing ARM's opportunity in mobile computing

Over the last few years we have seen the smartphone become smarter and more like a mobile computer, with internet browsing and e-mail capability. During 2009, ARM and our Partners have been developing products for the next generation of mobile computers that will be launched in 2010, such as netbooks, e-books, smartbooks and tablets.

— Adobe announced that it will be launching Flash Player 10.1 for ARM-based chips, the video technology that is behind YouTube and BBC's iPlayer.

— Google announced that they are creating a new operating system that would be suitable for PCs from desktops to laptops, and would be available for the ARM architecture in H2 2010.

— OEMs such as Dell, Lenovo and Sharp announced mobile computers based on ARM's semiconductor Partners. Leading semiconductor manufacturers delivered ARM-based chips for next generation mobile computers.

KPI: Increasing market penetration in target end-markets

ARM has increased market share in each of its key end-markets outside of mobile; set-top box and digital TVs, hard disk drive controllers and microcontrollers.

Hard disk drives

65% market share in 2009

Up from 55% in 2008

Hard disk drives (HDDs) are used in applications such as servers, PCs, laptops and other storage applications. Leading HDD manufacturers are using ARM technology as disk capacity and density increases and the chips controlling the disks become smarter.

Digital TVs and set-top boxes

30% market share in 2009

Up from 25% in 2008

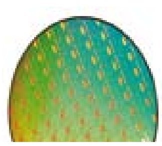
ARM-based chips are used to decode the TV signal, to improve image quality on the screen and to display and control the electronic programme guide. Many leading brands use ARM-based chips such as Sony, Samsung and Vizio. High-end digital TVs are also using ARM technology to connect to the internet and display data such as local weather, news and stock market updates.

Microcontrollers

6% market share in 2009

Up from 4% in 2008

The microcontroller market is highly fragmented, with many semiconductor companies producing microcontrollers based on proprietary processor designs. To reduce their software development costs large OEMs are increasingly requesting that their semiconductor suppliers use a common processor architecture. ARM is often the choice as it is a suitable architecture that is available to all the semiconductor suppliers.



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

KPI: Developing new technology to generate additional royalty streams

During 2009, ARM continued to deliver on its strategic goals to create new technologies that are suitable for licensing to leading semiconductor companies, and for generating additional royalty streams in the future.

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

During 2009 ARM saw strong licensing and signed eight platform licences for ARM's physical IP that will drive future royalty revenues. Physical IP royalties significantly outperformed the overall industry, declining just 10% whilst overall foundry revenues declined 25%.

ARM's next generation physical IP development is proceeding well, as we have demonstrated the first ARM processor manufactured at the 32nm process node. We also started licensing leading foundry and fabless semiconductor companies at 28nm, demonstrating the continuing demand for ARM physical IP.

Multimedia IP for enhanced user interfaces
For many consumer electronics devices the user interface is a vital part of the communication with the user. Mobile phones, TVs and computers are familiar, and cars, media players and navigation devices are emerging. ARM is developing graphics and video IP to improve the user interface for these devices and so enhance the user experience.

During 2009, ARM signed 13 graphics IP licences including leading semiconductor companies in mobile and consumer electronics markets such as STMicroelectronics and Samsung.

Repeating the business model for other technologies
The design and manufacture of semiconductor chips is getting increasingly complex and costly. Licensing IP, rather than developing it in-house, reduces both cost and risk for the semiconductor company, so ARM is developing new technology that supports a licensing plus royalty business model. These technologies can generate additional royalty streams from an ARM-based chip.

	Number of licences in 2009	Base of licences by end of 2009	Royalties in 2009
Physical IP	8*	68*	Twelve of the top 20 semiconductor companies used physical IP in their chips driving royalties through the foundries.
Video and graphics IP	13	26	Four leading semiconductor manufacturers paid royalties on ARM video and graphics IP.

* Physical IP licences refer only to royalty generating platform licences.

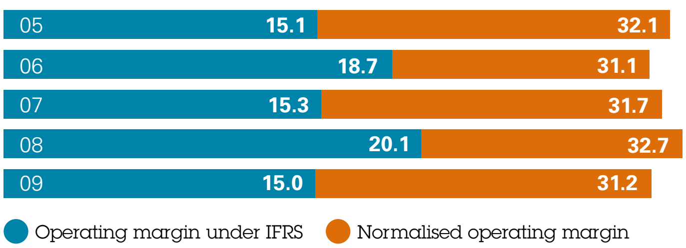
KPI:
Growing normalised operating margin, EPS, cash generation and dividends

ARM's unique business model and exposure to structural growth markets means that ARM is well positioned to become increasingly profitable, to generate cash and to support a progressive dividend. ARM intends to cover most of its operational costs from the licence revenues of each new technology. This leaves the majority of royalties as profits. Over the medium term, we expect royalties to grow faster than licence revenues and costs.

In 2009 ARM's financial discipline maintained all the major engineering programmes on track to deliver new products in 2010 and beyond, whilst reducing overall headcount.

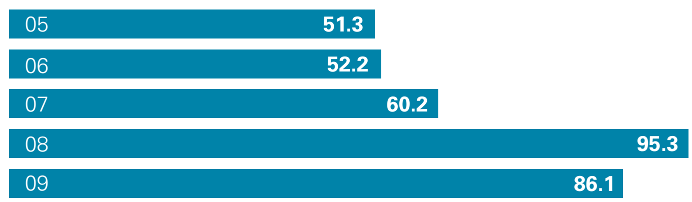
As our customers are the world's largest semiconductor manufacturers, their regular royalty payments have become a highly reliable cash flow. Given our broad base of Partners and end-markets, ARM is not overly reliant on any one company or consumer product for its future profits and cash.

Operating margin %



In 2009, despite the downturn in the industry, and a 10% decline in revenues, ARM has maintained normalised operating margins over 30%.

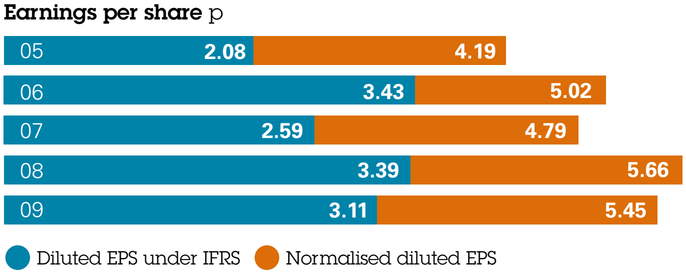
Net cash generation* £m



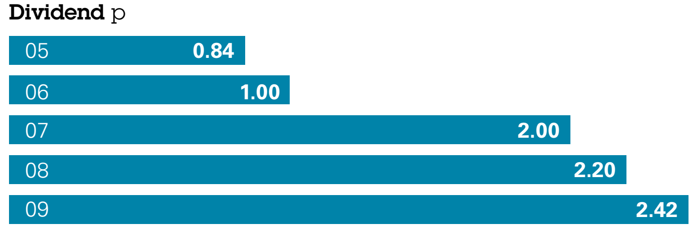
During 2009, ARM generated £86 million of cash, compared to £95 million in 2008. The reduction in cash generation is primarily due to the decline in revenue.

Since 2004, ARM has returned over £360 million of cash to shareholders through a mixture of share buybacks and dividends.

Earnings per share p



Dividend p



Despite the decline in EPS, the directors are proposing an increase in the full year dividend of 10% to 2.42p per share. This increase is based on the board's confidence in ARM's long-term growth prospects.

* Net cash generation is defined as movement on cash, cash equivalents, short-term investments and marketable securities, adding back share buybacks, dividend payments, investment and acquisition consideration, restructuring payments, other acquistion-related payments and share-based payroll taxes, and deducting inflows from share option exercises and proceeds from investment disposals. See page 20.

Our vision, our view

Warren East
Chief Executive Officer

Our vision is of a connected, energy efficient world, enjoyed by all.

Our view is that engineers and designers can use smart technology intelligently to create that world.

ARM is well placed to see trends in the technologies that we use in our lives today and how these technologies can shape the way we live our lives in the future. ARM works with market leaders to develop the specifications for next generation technology, a process which, from concept to consumer product, can take 5-10 years. This includes many years of investment in R&D by ARM and our Partners, the alignment of multiple product plans from companies across the industry, and the studying of end-markets to ensure we are developing the right products for the right time.

Some of the key trends that we see today, that are likely to make ARM technology ever more pervasive include:

- Increasing connectivity in consumer electronics – connecting us to each other and our data
- Creating sustainable and energy-efficient communities – through smarter technology that uses resources more intelligently
- More intelligent use of technology to make all our lives easier
- Partnering to drive innovation; no-one has all the answers, we have to work across the industry to develop the right technology for the right time.

Together these trends are creating new and expanding markets for ARM-based chips. As many of the market leaders are already developing products based on ARM technology, we believe that we are well placed to be able to increase share in these markets, just as they are also growing in size. This will drive ARM's royalty revenues and our profitability and cash generation.

Increasing connectivity

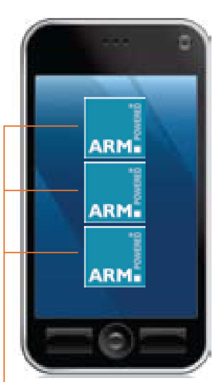
We are becoming increasingly connected, both to each other and to the data that we use in our lives. Mobile phones and internet-connected computers are already familiar to us, enabling us to contact anyone, anywhere in the world at any time. Initially these connections were a convenience to speed up communications, but already our social lives and businesses depend on instant connectivity and accessibility.

This connectivity trend appears to be accelerating as our televisions, mobile computers and even photo frames are connecting to the internet to bring information, entertainment and social networking into our daily lives. In the future our cars and our homes will network together to improve safety and reduce energy.

Today, ARM technology can be found in nearly all of the world's mobile phones and internet-connected devices, and these products often contain multiple ARM-based chips. As the number and range of consumer devices connecting to the internet increases, this is creating new opportunities for ARM-based chips.

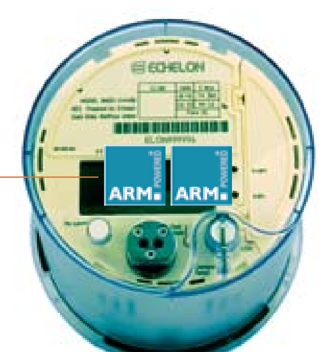
Various forecasts predict that the few hundreds of millions of connected devices sold in 2009 will grow to approximately three billion devices in 2014.

All these connected devices bring both challenges and opportunities. There will be challenges protecting our privacy, our data and online identity, creating opportunities for new technologies related to security and data integrity; and there will be challenges related to how we create the most energy-efficient way to share data and distribute the computing resources, for example low-power mobile computers in our pockets combined with more energy-efficient data-centres and servers.



Smartphone
Applications processor for web-browsing and e-mail
Baseband modem to connect to the network
Connectivity chip to connect to headset

Digital TV
Applications processor for web-browsing and electronic programme guide
Connectivity chip to connect to wireless keyboard
WiFi chip to connect to the internet



Smart-meter
Networking chip to communicate with other products in the home
Networking chip to communicate to smart-grid

Enabling sustainable societies

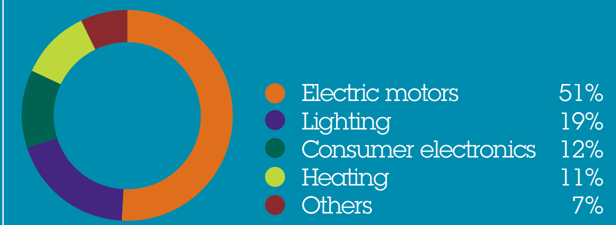
An expanding global population, all wanting the best possible standard of living, is putting increasing demands on the world's energy resources. Rising energy costs combined with climate change concerns have also motivated many people to look for ways to improve energy-efficiency.

We believe that more smart technology can enable more efficient products, so that we can reduce energy consumption whilst all enjoying the same consumer experience.

ARM's technology is inherently low-power as it was designed for use in battery operated devices such as mobile phones. ARM technology is suitable for any device that needs to reduce power consumption. Many consumer products such as laptops and digital TVs need fans to keep the electronics inside them cool. Energy is being wasted as heat, and the fan is using even more energy. ARM-based chips for consumer products are low-power, and therefore cooler, and may not need fans at all.

Smarter appliances also use fewer resources. Smart washing machines use the minimum amounts of detergent and water needed to clean the clothes, and use advanced algorithms to efficiently spin the drum.

Global power consumption by product type* %



Electric motors consume over half of the world's electricity and can be found in appliances such as washing machines and refrigerators, and also in elevators, robotics and industrial automation.

Most of these are induction motors, but brushless motors, that are much more efficient are already being used in everything from electric vehicles to DVD players. These often need a smart ARM-based chip to run the motor controller.

Smarter control of electric lighting and heating, and low-power consumer electronics will also help reduce our energy consumption.

* ARM estimates based on reports by Electronic Power Research Institute (EPRI) and American Council for an Energy Efficient Economy (ACEEE)

We believe that it may be possible, with improved use of smart technology, to reduce overall energy consumption without compromising the improvements in standards of living people are trying to achieve. We are encouraged that, all over the world, individuals, societies, companies and governments are supporting and legislating for improvements in energy-efficiency, and that smart technology is going to play an important part in these improvements.

Smart technology can make life simpler

Smarter consumer products can make our lives easier and more enjoyable, but often 'dumb design' can leave us frustrated by over-complicated products where the designer has focused more on the technology and less on how we use it.

Early video recorders were notoriously difficult to set-up to record future TV programmes. Today's PVRs do the same job, but are much smarter and can display the TV listing to make recording much simpler. Forty years ago, cars may have needed a crank start first thing on a cold winter's morning, but now many start at the push of a button.

The combination of smart technology and smart design can improve the lives of people all over the world.

Much of this improvement to people's lives is due to the falling cost of smart technology. Some ARM-based chips are now available at less than one dollar each and so innovative designers are able to solve local problems with smart technology helping to drive demand for ARM-based chips.

Farmers in Kenya are using their mobile phones to access a digital market place to get the best prices for their produce, but also to give them local weather reports and advice on pests and diseases.

Doctors are implanting diabetics with insulin pumps that constantly monitor blood sugar levels and can automatically adjust when and how much insulin is injected. This is a great option in the young or elderly who may struggle with self-administered injections.

Energy providers are creating networks, called 'smart-grids', to help balance out peak demand. These smart-grids connect to appliances in homes, offices and industry and give real-time energy pricing. Discretionary usage by domestic appliances, such as washing machines, can be scheduled to start when electricity prices are at their cheapest during the day.

Creating a community of design and manufacturing innovation

To meet today's challenges and opportunities we need the expertise of the world's smartest and most innovative people. No one company can hope to have all of these people in their team, so ARM has developed an innovative business model. Rather than trying to do everything ourselves, we partner with the leading design and manufacturing companies in the world to create a huge connected community of innovation.

There are thousands of companies in this connected community all developing ARM-based technology. Some are designing or manufacturing ARM-based chips; others are writing operating systems or application software to run on those chips; whilst some are creating development tools to assist both the hardware and software engineers. Thousands of businesses employing hundreds of thousands of people, all over the world, are working together to create innovative and differentiated products based on ARM technology.

ARM's role is to encourage and support this community. When a new market becomes suitable for ARM technology for the first time, we work closely with the pioneers to support their initial developments. As those first companies find success, ARM encourages others to join them, and their success encourages increased use of ARM technology. Eventually ARM technology has become a common platform, reducing the cost for all, as software and development tools can be reused by engineers across the platform.

Demand for smarter chips is creating an opportunity for ARM's technology

To meet the demand for smarter chips in consumer electronics ARM customers are using our technology in a broadening range of end-markets. ARM will introduce three new processors in 2010 and increasing end-market demand, combined with the latest ARM designs, has resulted in a strong licensing opportunity pipeline.

Mobile phones continue to be a driver of ARM's royalty revenues as smartphones become smarter and more capable, and will become a greater proportion of overall handset shipments. Even voice-only phones are becoming smarter as increased connectivity and multimedia capability becomes standard across all phones.

An increasing proportion of ARM-based chips are going into non-mobile devices. Already leading HDD manufacturers have ARM-based product lines and are increasing their use of ARM technology. As digital TVs become internet connected they are benefiting from the ecosystem of software already available for ARM. Our microcontroller market share is growing, with many leading microcontroller manufacturers announcing new ARM-based product lines.

ARM is investing in additional technologies that are suitable for our business model, of an upfront licence fee and an on-going royalty stream, such as physical IP and graphics processors. During 2010 ARM will continue to develop the roadmap of physical IP components. We expect leading customers to start commercial production of 32nm chips in 2010. ARM will also start licensing our new graphics processor and we expect increasing shipments of chips based on ARM's graphics technology in smartphones, digital TVs and other consumer electronic applications.

Review of 2009 and our view of 2014

ARM is winning share in markets that are forecast to grow over the next five years. The table below shows ARM's estimated market share in 2009 and analysts' forecasts of how these markets will develop over the next five years.

	2009 estimates					**2014 forecasts**		
Devices containing ARM-based chips In millions	Device shipments in 2009	Chips per device	Opportunity for ARM-based chips	2009 ARM shipments	2009 market share	Device shipments in 2014	Chips per device	Opportunity for ARM-based chips
Smartphones	230	2-5	1,000	850	85%	800	3-5	3,200
Feature phones	600	1-3	1,200	1,000	85%	450	1-3	1,000
Low-end voice phones	300	1	300	280	95%	350	1	350
Portable media players	180	1-3	250	180	75%	200	1-3	400
Mobile computers*	30	1	30	<1	1%	500	1	500
Digital cameras	100	1-2	150	90	60%	120	1-2	200
Set-top box/Digital TV	300	1-2	370	100	30%	450	1-4	1,050
Networking	570	1	570	100	20%	800	1-2	1,000
Printers	120	1	120	70	60%	200	1	200
Disk drives	550	1	550	350	65%	1,100	1	1,100
Automotive applications	1,200	1	1,200	120	10%	2,000	1	2,000
Smart cards	3,400	1	3,400	200	6%	5,500	1	5,500
Microcontrollers	4,500	1	4,500	270	6%	9,000	1	9,000
Others**	1,400	1	1,400	330	25%	3,500	1	3,500
Totals	**13.5bn**		**15.0bn**	**3.9bn**	**26%**	**25.0bn**		**29.0bn**

*Including just the applications processor in netbooks, smartbooks, e-readers, tablets, etc. Other chips that ARM could be in are included in networking, disk drives and microcontrollers. **Others includes Bluetooth headsets, gaming consoles, DVD players, etc.

ARM technology pervasiveness will continue to give rise to increasing cash generation

Smart technology is increasingly being used to connect us together, to make our societies more sustainable and to make life easier and simpler for everyone. ARM's technology has been created to meet these market requirements and our business model ensures that the leading companies in these end-markets have access to ARM's latest products.

These trends are making ARM technology more pervasive and applicable to more end-markets. Mature markets where ARM technology is already well penetrated are still opportunities as the number of ARM-based chips can increase per device, and the royalty revenue generated from the sale of each digital consumer device therefore increases. New markets are emerging all the time, and ARM's business model has ensured that the most innovative companies for these new markets are already equipped with ARM technology.

These trends are likely to continue beyond the next five years and well into the future. Today, ARM is already planning for this future, by investing in R&D with three new processors planned to be launched in 2010 and investing in strengthening the connected community with new software and tools.

ARM's technology is broadly applicable across a wide range of end-markets and everything we design can be licensed to multiple companies and they can integrate that design into numerous product lines, each generating another layer of royalty. Our R&D investment is therefore less than the growing revenue opportunity as more Partners adopt ARM technology in their product lines. This operational leverage is expected to make ARM increasingly profitable and cash generative as we move forward.

An external perspective

ARM as an investment – the five-year view.

The world's number one supplier of semiconductor IP

Strong track record of returning cash to shareholders

Taking on the Intel challenge

Scott Payton is a freelance business and financial journalist. He is former editor of Real IR, the pan-European investor relations magazine, and Business Voice, the Confederation of British Industry's magazine. He has written this article to provide an independent view on ARM as an investment opportunity.

It makes sense for investors to take a long-term view of ARM. One of the reasons why the company has been outperforming the semiconductor industry for so many years, and has proven so resilient through the downtown of 2008 and 2009, is that it has been steadily gaining share in long-term structural growth markets. A quarterly view of the business simply won't show this – nor will it provide the true picture regarding the slow-burn process of designing a processor, licensing it to leading semiconductor companies and, years later, receiving royalty revenues as chips move into volume production.

So what is the outlook for ARM between today and 2014? Let's look at the fundamentals of the business from an investor's perspective, and then examine the opportunities and challenges facing the company during the years ahead.

The ARM model

ARM enables companies across the semiconductor industry to outsource the complex and costly process of designing processors. The company provides a 'manufacturer-agnostic' design of a processor, spreading the cost of research and development across the companies who license the design. This was a revolutionary idea 20 years ago. ARM's success has been built on making this idea accepted and attractive across the semiconductor industry, initially for chips going into mobile phones and, increasingly, for chips going into other end-markets.

The ARM investment case

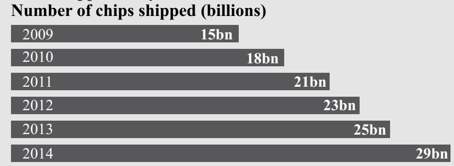
ARM has a number of key attractions from an investor's perspective.

First, it enjoys exposure to a range of markets characterised by long-term and ongoing structural growth. Mobile phones in general, and multi-function, internet-enabled 'smartphones' in particular, are a key example of such growth.

ARM's intellectual property already features in the majority of mobile phones in the world. The explosion of smartphones has provided a turbo-boost to ARM's revenues, because these devices contain more ARM-based chips than traditional handsets. Indeed, ARM generates six or seven times more revenue from a typical smartphone than from a standard voice-only handset. This growth in smartphones looks set to continue for many years to come.

The second attraction for investors is the fact that ARM has been steadily gaining share in markets beyond mobile phones – a trend that is highly likely to persist, thanks to the ongoing proliferation of increasingly sophisticated devices such as digital TVs, cars, white goods and industrial applications.

ARM's opportunity
Number of chips shipped (billions)



As consumer electronics get smarter and more pervasive so ARM's opportunity grows.

Third, ARM is the incumbent of the industry and faces little, if any, direct competition. ARM's main indirect competitors are its own customers, because some continue to use their own proprietary processor designs rather than license ARM technology. However, as end-markets require ever-more sophisticated chips, the costs of maintaining a proprietary design continue to increase, making ARM technology ever-more attractive.

Now the fourth attraction: ARM continues to increase its profitability. Operating margins currently stand at around 30% with most ana-

Despite the potential hurdles, analysts are overwhelmingly upbeat about the five-year outlook for ARM. After all, the company is the world’s number-one provider of semiconductor IP. It has strong positions in a number of long-term structural growth markets, including smartphones, microcontrollers and consumer electronics. ARM’s business model remains unique and free from direct competition. Profits are growing, while cash is returning to shareholders.

lysts expecting them to reach 40% over the medium term.

Fifth, ARM has a strong track record of returning cash to shareholders. This record is not expected to be interrupted as the company focuses on key areas of growth, as explained below.

Finally, the last but not least attraction: the company’s management team is deeply experienced and widely respected. As one analyst covering ARM simply puts it: “people trust the management team to continue to deliver into the future.”

Opportunities

There are three clear opportunities facing ARM over the next five years, which are set to improve the firm’s market share and increase its profitability.

Opportunity number one is the continued growth of the smartphone market. Every smartphone contains multiple ARM-based chips, and as smartphones become more advanced, the number of ARM-based chips per phone increases. In 2009 the average mobile phone handset contained an average of 2.1 ARM-based chips, up from 1.9 in 2008. This figure is set to rise further, as more handsets incorporate more complex functionality.

Making deeper inroads into other digital technology markets is the second key medium-term opportunity. As a wide range of digital devices, from TV set-top boxes to smart energy meters, become more sophisticated, ARM, having honed its expertise at producing smart, low-power processors, enjoys a wide range of other growth opportunities.

The mobile computing market – comprising devices such as netbooks, electronic books and ‘tablets’ – is an adjacent market with rich potential for ARM. Alongside the main applications processor, these devices also contain multiple chips controlling a range of functions including wireless internet access and data storage. ARM has an opportunity to capture increasing royalties for these peripheral chips in every mobile computer. The market for main applications processors in mobile computers is then the next nut for ARM to crack. This is an area featuring a formidable competitor in the form of Intel.

Expansion of ARM’s physical intellectual property division (PIPD) is the final major opportunity for the business. ARM has been licensing its processor technology since 1994, and the company believes that the licensing of physical IP – the design of logic libraries, memory compilers and other technologies – is the next big trend. It will take a few more years before it becomes clear how strong this trend will be – but the potential is widely seen as substantial.

Challenges

Ask analysts to name the biggest medium-term risk facing ARM, and most will respond with one word: ‘Intel’. The world’s largest chip company has made it clear that it wants to make inroads into the ARM-based mobile device market, and the launch of its new Medfield chip, due in 2011, will give it a springboard for putting these aspirations into practice.

ARM responds to this threat by highlighting that while ARM technology is already moving into Intel’s mobile computing heartland, Intel technology is not yet ready to move into ARM’s low-power, high-performance smartphone heartland. Yet Intel will undoubtedly try to push into ARM’s territory during the years ahead – and the days of ARM’s 100% penetration of applications-processors in smartphones are clearly numbered.

Currency movement is a shorter term potential risk. Ninety five per cent of ARM’s revenues are generated in dollars, yet the firm reports in Sterling. The Dollar/Sterling exchange rate therefore has a material impact on earnings and profitability. This is certainly an irritation, from some investors’ point of view, as it can rob the business of some of its growth in the nearer term.

There are other potential hazards, too. What if smartphones do not proliferate as fast as expected, or if ARM does not grow market share in consumer electronics and embedded products? What if the physical IP market fails to take off? What if there is another global slump in consumer demand for electronic products?

Fundamentally bright outlook

Despite the potential hurdles, analysts are overwhelmingly upbeat about the five-year outlook for ARM. After all, the company is the world’s number-one provider of semiconductor IP. It has strong positions in a number of long-term structural growth markets, including smartphones, microcontrollers and consumer electronics. ARM’s business model remains unique and free from direct competition. Profits are growing, while cash is being returned to shareholders.

ARM has been outperforming its sector for a number of years, and the direction of that sector clearly plays to the business’s strengths.

Financial review

ARM's strong licensing momentum in 2009 was driven by our customers looking beyond the short-term downturn and into their future product development for sales in 2011 and beyond. ARM's new processor products are taking our technology into new markets and ARM's mainstream products are being deployed in a broadening range of applications.

Tim Score, Chief Financial Officer

Performance

The Group's key financial performance indicators include dollar revenue, operating margin and earnings per share. Non-financial key performance indicators include the number of ARM-based chips sold and licences signed. These are discussed both as part of this review and in the "How we have performed this year" section on pages 5 to 8.

Revenues

Total revenues for the year ended 31 December 2009 amounted to £305.0 million (2008: £298.9 million). In US dollar terms, revenues were $489.5 million in 2009 compared to $546.2 million in 2008, a decrease of 10%; this is despite industry dollar revenues being down about 20% in the relevant period. Due to the significant strengthening of the US dollar in the second half of 2008 with only a partial rebound in 2009, the actual average dollar exchange rate for ARM revenues in 2009 was $1.60 compared to $1.83 in 2008. As a result, sterling revenue grew by 2% compared to the underlying US dollar revenue reduction.

Total licensing revenues in 2009 were £98.5 million, being 32% of total revenues, compared to £103.5 million or 35% of total revenues in 2008. In US dollars, total licensing revenues in 2009 were $164.1 million compared to $189.7 million in 2008, a decrease of 14%.

Royalty revenues in 2009 were £155.4 million, representing 51% of total revenues in the year, compared to £147.7 million or 49% of total revenues in 2008. Total royalty revenues in US dollars in 2009 were $244.3 million, down 8% from $266.8 million in 2008.

Sales of development systems in 2009 were £32.9 million, being 11% of total revenues, compared to £31.1 million, or 10% of total revenues in 2008. Development systems revenues in US dollars were down 11% in 2009 to $51.6 million from $57.8 million in 2008. Service revenues, which include consulting services and revenues from support, maintenance and training, were £18.2 million in 2009, representing 6% of total revenues, compared to £16.6 million, or 6% of total revenues in 2008. Service revenues in US dollars were down 8% at $29.5 million compared to $31.9 million in 2008.

Licensing revenues

Total licensing revenues for 2009 were £98.5 million, comprising £76.5 million from the Processor Division (PD) and £22.0 million from the Physical IP Division (PIPD). In US dollars, PD licensing revenues were $128.2 million (down 12% on $145.1 million in 2008) and PIPD was $35.9 million (down 20% on $44.6 million in 2008).

In 2009, we signed 87 licenses in PD, the highest number signed in a year, taking the total licence base to 662. The majority of the licences were for ARM's advanced Cortex processors. ARM's strong licensing momentum in 2009 was driven by our customers looking beyond the short-term downturn and into their future product development for sales in 2011 and beyond. ARM's new processor products are taking our technology into new markets and ARM's mainstream products are being deployed in a broadening range of applications. The licences signed in 2009 were for a broadening range of applications, both mobile and non-mobile, with approximately two-thirds of licences outside of the mobile market, in such areas as microcontrollers, storage and home entertainment.

During 2009 we signed eight platform licences for ARM's physical IP that will drive future royalty revenues. ARM's next generation physical IP development is proceeding well and we have demonstrated the first ARM processor manufactured at the 32nm process node. We also started licensing leading foundry and fabless semiconductor companies at 28nm, demonstrating the continuing demand for ARM physical IP.

Selected financial data/IFRS

Under IFRS	**2009 £000**	2008 £000	2007 £000	2006 £000	2005 £000
Revenues	**305,022**	298,934	259,160	263,254	232,439
Cost of revenues	**(25,471)**	(32,878)	(28,105)	(30,877)	(26,610)
Gross profit	**279,551**	266,056	231,055	232,377	205,829
Total net operating expenses	**(233,937)**	(206,113)	(191,361)	(183,129)	(170,672)
Profit from operations	**45,614**	59,943	39,694	49,248	35,157
Investment income, net	**1,645**	3,246	5,402	6,758	5,317
Profit before tax	**47,259**	63,189	45,096	56,006	40,474
Tax	**(6,820)**	(19,597)	(9,846)	(7,850)	(10,827)
Profit for the year	**40,439**	43,592	35,250	48,156	29,647
Dividends paid	**28,961**	26,383	18,547	12,367	10,436
Capital expenditure	**6,875**	8,720	5,444	8,559	6,064
Research and development expenditure	**112,215**	87,588	83,977	84,884	80,273
Cash, short- and long-term investments	**141,808**	78,789	51,323	128,494	160,902
Shareholders' funds	**738,697**	740,343	579,162	660,926	746,847
Employees at end of year (number)	**1,710**	1,740	1,728	1,659	1,324

The following table shows non-GAAP measures used in this annual report, including reconciliations from the IFRS measures. They exclude acquisition-related charges, share-based payment costs and restructuring charges, and profit on disposal and impairment of available-for-sale investments.

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Profit from operations (per IFRS income statement)	**45,614**	59,943	39,694	49,248	35,157
Operating margin	**15.0%**	20.1%	15.3%	18.7%	15.1%
Acquisition-related charge – amortisation of intangibles	**15,698**	19,601	19,195	19,337	17,939
Acquisition-related charge – other payments	**456**	382	1,735	1,057	–
Share-based payment costs and related payroll taxes	**24,699**	15,908	18,387	17,445	21,508
Restructuring charges	**8,471**	1,872	1,037	–	–
Impairment of available-for-sale investments	**188**	–	2,100	(5,270)	–
Normalised profit from operations	**95,126**	97,706	82,148	81,817	74,604
Normalised operating margin	**31.2%**	32.7%	31.7%	31.1%	32.1%
Investment income, net	**1,645**	3,246	5,402	6,758	5,317
Normalised profit before tax	**96,771**	100,952	87,550	88,575	79,921
Tax (per IFRS income statement)	**(6,820)**	(19,597)	(9,846)	(7,850)	(10,827)
Tax impact of above charges	**(19,109)**	(8,524)	(12,498)	(10,350)	(9,439)
Normalised profit after tax	**70,842**	72,831	65,206	70,375	59,655
Normalised diluted EPS (pence)	**5.45**	5.66	4.79	5.02	4.19
IFRS Diluted EPS (pence)	**3.11**	3.39	2.59	3.43	2.08

		2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Cash and cash equivalents		**34,489**	76,502	49,509	90,743	128,077
Short-term investments		**105,524**	471	232	18,600	23,990
Short- and long-term marketable securities		**1,795**	1,816	1,582	19,151	8,835
Normalised net cash, at end of year		**141,808**	78,789	51,323	128,494	160,902
Less:	Normalised net cash, at start of year	**(78,789)**	(51,323)	(128,494)	(160,902)	(142,817)
	Cash inflow from exercise of share options	**(19,085)**	(5,581)	(18,892)	(17,860)	(13,921)
	Cash inflow from sale of available-for-sale investments	**(663)**	(6,291)	–	(5,567)	(96)
Add back:	Cash outflow from payment of dividends	**28,961**	26,383	18,547	12,367	10,436
	Cash outflow from purchase of own shares	**–**	40,286	128,561	76,519	16,211
	Cash outflow from investments and acquisitions	**9,679**	8,400	6,014	17,435	20,578
	Cash outflow from restructuring payments	**3,451**	1,872	1,037	–	–
	Cash outflow from other acquisition-related payments	**–**	2,207	1,735	1,057	–
	Cash outflow from share-based payroll taxes	**741**	577	362	653	–
Normalised net cash generation		**86,103**	95,319	60,193	52,196	51,293

Approximately 95% of the Group's revenues are earned in US dollars. As such, dollar revenues are based on actual dollar invoicing where applicable, and using the rate of exchange on the date of the transaction for invoicing in currencies other than dollars.

	2009	2008	2007	2006	2005
Revenues (£'000)	**305,022**	298,934	259,160	263,254	232,439
ARM's effective exchange rate	**1.60**	1.83	1.98	1.84	1.80
Revenues ($'000)	**489,453**	546,211	514,301	483,637	418,668

Royalty revenues and unit shipments

Total royalty revenues for 2009 were £155.4 million, comprising £132.5 million (2008: £125.5 million) from PD and £22.9 million (2008: £22.2 million) from PIPD. Royalties in PD came from unit shipments by ARM licensees of 3.9 billion, down slightly compared to 4.0 billion chips in 2008 but compared to a significantly larger decline in the overall industry in the comparable period. Dollar royalty revenues earned in PD were $208.1 million, down 8% on 2008.

Royalties, similarly to licensing, came from a variety of market segments and ARM product families. For the last several years, approximately two-thirds of shipments have come from the mobile market, but we are beginning to see significant growth in non-mobile as ARM technology is beginning to ship in volume in consumer and embedded products. ARM7 and ARM9 still form the majority of all shipments but ARM11 has had significant year-on-year growth, albeit on smaller volumes, and Cortex has gained good traction in its early product releases.

The ARM content per device has also increased in 2009, with an average 2.1 ARM-based chips per mobile handset compared to 1.9 in 2008, predominantly resulting from growth in smartphones despite overall handset decline. The chips in smartphones are more advanced than regular phones, and as a result have a higher ASP and consequently yield a higher royalty to ARM.

Gross margin

Gross margin in 2009 was 91.6% compared to 89.0% in 2008. Cost of sales in 2009 includes compensation charges in respect of share-based payments and related payroll taxes of £1.7 million (2008: £1.1 million). Excluding these compensation charges, gross margin in 2009 was 92.2% (2008: 89.4%). The higher margin reflects both a greater share of total revenue from royalties, as well as a larger proportion of engineers' costs being classified as operating expenses rather than cost of sales, resulting from more development work versus product customisation work being performed in PIPD.

Operating expenses

Over recent years, ARM has acquired a number of companies giving rise to the recognition of intangible assets other than goodwill. These are amortised over their expected useful lives, with the cost recorded against research and development, sales and marketing or general and administrative expenses as appropriate. In order to aid comparability, these costs have been separately identified as "acquisition-related charges" in the narrative below. In addition, the issuance of ARM share-based remuneration to employees of the Group gives rise to share-based payment charges. These are also separately identified in the narrative below.

Total net operating expenses in the year to 31 December 2009 were £233.9 million compared to £206.1 million in 2008. Operating expenses in 2009 include acquisition-related charges relating to amortisation of intangibles of £15.7 million (2008: £19.6 million), other acquisition-related charges of £0.4 million (2008: £0.4 million), impairment of available-for-sale investments of £0.2 million (2008: nil), restructuring charges of £8.5 million (2008: £1.9 million) and compensation charges in respect of share-based payments and related payroll taxes of £23.0 million (2008: £14.8 million). Excluding these charges, total operating expenses in 2009 were £186.2 million, compared to £169.5 million in 2008.

The ARM content per device has also increased in 2009, with an average 2.1 ARM-based chips per mobile handset compared to 1.9 in 2008, predominantly resulting from growth in smartphones despite overall handset decline.

Research and development expenses in 2009 were £112.2 million, representing 37% of revenues. This compares to £87.6 million or 29% of revenues in 2008. Average headcount in this area increased to 1,141 in 2009 from 1,115 in 2008. Research and development expenses in 2009 include total acquisition-related charges of £7.7 million (2008: £11.1 million) and compensation charges in respect of share-based payments and related payroll taxes of £14.8 million (2008: £10.7 million). Excluding these charges, research and development expenses in 2009 were £89.7 million and £65.8 million in 2008, representing 29% and 22% of revenues respectively. The increase in

The directors recommend payment of a total dividend in respect of 2009 of 2.42 pence per share, an increase of 10% over the dividend paid in 2008.

costs is primarily as a result of the strengthening US dollar resulting in our US dollar cost base having a higher sterling equivalent, but also as a result of the classification of some engineering development costs as noted above.

Sales and marketing costs in 2009 were £61.7 million or 20% of revenues, compared to £57.4 million or 19% of revenues in 2008. Average headcount in this area decreased from 350 in 2008 to 334 in 2009. Sales and marketing costs in 2009 include total acquisition-related charges of £8.5 million (2008: £8.1 million) and compensation charges in respect of share-based payments and related payroll taxes of £4.7 million (2008: £2.0 million). Excluding these charges, sales and marketing costs in 2009 were £48.5 million and £47.4 million in 2008, representing 16% of revenues in both years.

General and administrative expenses in 2009 were £60.0 million or 20% of revenues, compared to £61.1 million or 20% of revenues in 2008. Average headcount in this area increased to 248 in 2009 from 246 in 2008. General and administrative expenses in 2009 include total acquisition-related charges of £nil (2008: £0.9 million), restructuring charges of £8.5 million (2008: £1.9 million), impairment of an available-for sale security of £0.2 million (2008: £nil) and compensation charges in respect of share-based payments and related payroll taxes of £3.5 million (2008: £2.1 million). Excluding these charges, general and administrative expenses in 2009 were £47.9 million, compared to £56.3 million in 2008 representing 16% and 19% of revenues respectively. The decrease in costs in this area mainly reflects the impact of accounting for derivative and other foreign exchange instruments which gave rise to a net charge in 2008 of approximately £3.0 million and a net credit in 2009 of £7.3 million.

Operating margin

The operating margin in 2009 was 15.0% compared to 20.1% in 2008. The operating margin in 2009, excluding acquisition-related charges of £16.2 million, restructuring charges of £8.5 million, impairment of an available-for sale security of £0.2 million and compensation charges in respect of share-based payments and related payroll taxes of £24.7 million was 31.2% compared to 32.7%, before acquisition-related charges of £20.0 million, restructuring charges of £1.9 million and compensation charges in respect of share-based payments and related payroll taxes of £15.9 million, in 2008.

Earnings and taxation

Profit before tax in 2009 was £47.3 million compared to £63.2 million in 2008. Profit before tax in 2009, excluding acquisition-related charges of £16.2 million, restructuring charges of £8.5 million, impairment of an available-for sale security of £0.2 million and compensation charges in respect of share-based payments and related payroll taxes of £24.7 million, was £96.8 million or 31.7% of revenues. This compares to £101.0 million, before acquisition-related charges of £20.0 million, restructuring charges of £1.9 million and compensation charges in respect of share-based payments and related payroll taxes of £15.9 million, or 33.8% of revenues in 2008.

The Group's effective taxation rate in 2009 was 14.4%, compared to 31.0% in 2008. This decrease was primarily due to the accounting for tax on share-based payments in the respective years.

Fully diluted earnings per share in 2009 were 3.1 pence compared to 3.4 pence in 2008. Earnings per fully diluted share in 2009, before acquisition-related charges of £16.2 million, restructuring charges of £8.5 million, impairment of an available-for sale security of £0.2 million, compensation charges in respect of share-based payments and related payroll taxes of £24.7 million and related estimated tax adjustments thereon of £19.1 million, were 5.4 pence, compared to 5.7 pence before acquisition-related charges of £20.0 million, restructuring charges of £1.9 million, compensation charges in respect of share-based payments and related payroll taxes of £15.9 million and related estimated tax adjustments thereon of £8.5 million, in 2008.

Balance sheet and cash flow

Goodwill at 31 December 2009 was £516.8 million, compared to £567.8 million at 31 December 2008. The decrease in goodwill in 2009 is due primarily to foreign exchange movements, given the significant weakening of the US dollar against sterling from $1.46 at 31 December 2008 to $1.61 at the end of 2009. Goodwill is not amortised under IFRS but is subject to impairment review on at least an annual basis. The review performed in 2009 concluded that no impairment was required.

Other intangible assets at 31 December 2009 were £24.7 million, compared to £45.1 million at 31 December 2008. The movement in other intangible assets in 2009 primarily reflects amortisation of the intangible assets and foreign exchange movements as above. Further analysis can be found in note 17 to the financial statements. Other intangible assets are amortised through the income statement over their estimated useful lives to the Group.

Accounts receivable at 31 December 2009 were £65.2 million, compared to £76.9 million at 31 December 2008. The allowance against receivables was £2.4 million at 31 December 2009, compared to £1.7 million at 31 December 2008. Deferred revenues were £39.6 million at 31 December 2009, compared to £29.9 million at the end of 2008.

Resources available

The consolidated cash, cash equivalents, short-term investments and marketable securities balance was £141.8 million at 31 December 2009 compared to £78.8 million at 31 December 2008. The cash generative nature of the ARM business allowed the Group to grow its cash balance as well as making increased dividend payments in the year. Normalised cash generation for the Group in 2009 was £86.1 million (2008: £93.1 million).

Interest receivable
Net interest receivable was £1.6 million for 2009 compared to £3.2 million in 2008. The reduction is due to significantly lower interest rates being only partially offset by the increased average cash balances held by the Group during the year.

Returns to shareholders

Dividend
The directors recommend payment of a final dividend in respect of 2009 of 1.45 pence per share which, taken together with the interim dividend of 0.97 pence per share paid in October 2009, gives a total dividend in respect of 2009 of 2.42 pence per share, an increase of 10% over 2.2 pence per share in 2008. Subject to shareholder approval, the final dividend will be paid on 19 May 2010 to shareholders on the register on 30 April 2010.

Total dividends actually paid in 2009 amounted to £29.0 million (2008: £26.4 million).

Share buyback programme
The Group initiated a rolling share-buyback programme in 2005 to supplement dividends in returning surplus funds to shareholders. Since inception, the Company has bought back 213 million shares (being 16% of issued share capital) at a total cost of £262 million.

No share buybacks were undertaken in 2009. The rolling authority to buy back shares given by the shareholders at the 2009 AGM remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2010 AGM.

Capital structure
The authorised share capital of the Company is 2,200,000,000 ordinary shares of 0.05 pence each (2008: 2,200,000,000). The issued share capital at 31 December 2009 was 1,344,055,696 ordinary shares of 0.05 pence each (2008: 1,344,055,696). As a result of the buyback programme, the Company owns 60,321,361 of its own shares at 31 December 2009 (2008: 91,160,488).

Treasury policies and objectives

The Group has established treasury policies aimed both at mitigating the impact of foreign exchange fluctuations on reported profits and cash flows and at ensuring appropriate returns are earned on the Group's cash resources.

With more than 95% of Group revenues earned in US dollars and over 40% of Group costs being incurred in US dollars, the Group has a significant exposure to movements in the exchange rate between the US dollar and sterling. This exposure is partially mitigated by an ongoing hedging programme, involving forward contracts and option contracts where appropriate.

Principal risks and uncertainties

In line with the guidance for the preparation of an operating and financial review, the principal risk factors faced by the Group are identified in the "Trends, risks and opportunities" section on pages 24 to 25. Details of the Group's internal control and risk management procedures are included in the Corporate Governance Report on pages 31 to 36.

Tim Score
Chief Financial Officer

Trends, risks and opportunities

Trends	Risks
Licensing: consolidation of customers The semiconductor industry goes through cycles which include periods of increased consolidation, especially when revenue growth declines. In 2009, there were several examples of ARM's customer base consolidating either through acquisition of entire companies or one company acquiring the division of another. This trend appears to be particularly marked in the wireless baseband business, where ARM has a large market share and in microcontrollers where ARM is looking to grow its share.	About half of ARM's revenue comes from direct sales to semiconductor companies. If there are fewer semiconductor companies, then ARM may have fewer customers to sell to. Two-thirds of ARM's unit shipments come from wireless devices, and some of ARM's future growth comes from the microcontroller market, so consolidation in these parts of the industry could represent a loss to ARM's future licensing business. In addition, due to reductions in venture capital funding, there may be fewer technology start-ups to license ARM technology.
Mobile: convergence of smartphones and laptops Smartphones are getting smarter and laptops are getting smaller and more portable, and we are seeing new mobile computing products introduced. This is creating an opportunity for smartphone technology to cross-over into laptops and laptop technology to cross-over into smartphones. Consumers want portable products that keep them connected to their social and business networks, have an all-day battery life and are simple to use.	The main processor in a laptop is typically based on the x86 architecture. It has been announced that smaller and lower-power x86-based chips are being developed that will be suitable for the main processor in a smartphone. There is therefore competition from large, well-funded companies that have demonstrated advanced technology and aggressive marketing strategies. They are capable of reducing ARM's market share in smartphone application processors and hindering any market share gains that might be made by ARM licensees in mobile computing.
Non-mobile: competing in microcontrollers Although growing strongly, in 2009 ARM had only about 6% market share of the nine billion unit microcontroller market. This market is characterised by a large number of proprietary processor architectures, being developed by many semiconductor companies, who sell very low-cost chips into a highly fragmented end-market.	It could be difficult for ARM to be successful in the microcontroller market. ARM will need to displace many established in-house processor designs. ARM may invest a lot of effort and cost to achieve modest penetration. As the microcontroller chips are low-cost, the royalty revenue per device will also be lower.
Beyond processors: outsourcing by semiconductor companies As semiconductor manufacturing has become increasingly expensive, most chip companies are considering whether to outsource their manufacturing facilities to specialist foundries. This creates a new opportunity for chip companies to license in their physical IP R&D. As all chips require physical IP technology, this could be a larger market than processors.	Currently, most major chip companies develop their physical IP using their in-house teams. Even for companies that have outsourced manufacturing, the rate at which they want to license in physical IP is unclear. The foundries may choose to develop the physical IP. This could add more value to their customers and help create 'lock-in' by making it harder for the customer to change foundry. There are also other independent physical IP suppliers who compete in this market.

Opportunities

Saving cost is often a major driver when two semiconductor companies come together. ARM works with the merged company to demonstrate how increased cost savings may be realised through the adoption of ARM as a common technology across more divisions in the merged company. None of the consolidation we have seen to date has had a meaningful impact on ARM's licensing opportunity as much of the consolidation consisted of companies selling divisions, where both companies remained ARM licensees after completion of the transaction.

In addition, as about two-thirds of ARM's licences are signed for non-mobile applications, much of ARM's licensing opportunity is beyond wireless. With the introduction of Cortex-M class processors ARM has increased its market opportunity in microcontrollers and we have more companies to sell to than ever before, and in 2009 we had 20 companies license their first ever ARM processor.

ARM-based chips for mobile computing are significantly lower-cost and lower-power than current products available based on x86. ARM's licensees have already announced chips that are suitable for mobile computers, and they regard this market as a growth opportunity. The ARM community is working with software companies and OEMs to ensure that a complete ecosystem of PC-class software is available, and that our shared experience in developing portable consumer products enables a new market of low-cost mobile computers.

In addition to the main microprocessor, mobile computers contain many chips that can incorporate ARM-based technology. We expect that most mobile computers could contain 3–5 chips that would increase additional ARM royalty revenues.

ARM believes that it can capture a significant proportion of the microcontroller (MCU) market as demonstrated by the strong unit growth rate over the last few years. ARM processors are already 30% of the 32-bit MCU market and our strategy is to develop technology that enables companies currently using 8- and 16-bit MCUs to migrate to ARM-based chips. As most semiconductor customers already have access to ARM technology, many have already produced MCUs based on the ARM7 or ARM9 processor families.

The Cortex-M processor family was specifically developed for the MCU market and, by the end of 2009, had been licensed over 50 times. In addition, the ARM community is working to ensure that as well as a broad range of ARM-based chips, all the software and software tools are available for end customers using established microcontroller distributors.

ARM is a proven supplier of processor technology to most of the major chip companies in the world. We have developed the most advanced physical IP technology and we were market leaders in the physical IP market in 2009. Currently this is a small market that we believe will grow over the medium-term as more major semiconductor companies outsource their manufacturing. ARM can demonstrate significant cost savings for our customers if they license physical IP from ARM; and with the combination of advanced physical IP and processor technology we have an unmatched offering.

Board of directors

Doug Dunn, OBE, age 65
Chairman

Doug Dunn joined the board as an independent non-executive director in December 1998 and became non-executive Chairman on 1 October 2006. He was previously President and Chief Executive Officer of ASM Lithography Holding N.V. until his retirement in December 2004. Before joining ASML, he was Chairman and Chief Executive Officer of the Consumer Electronics Division of Royal Philips Electronics N.V. and a member of the board. He was previously Managing Director of the Semiconductor divisions of Plessey and GEC and held several engineering and management positions at Motorola. He was awarded an OBE in 1992. He is a non-executive director of ST Microelectronics N.V., Soitec S.A., TomTom N.V. and B E Semiconductor Industries N.V.

Warren East age 48
Chief Executive Officer

Warren East joined ARM in 1994 to set up ARM's consulting business. He was Vice President, Business Operations from February 1998. In October 2000 he was appointed to the board as Chief Operating Officer and in October 2001 was appointed Chief Executive Officer. Before joining ARM he was with Texas Instruments. He is a chartered engineer, Fellow of the Institution of Engineering and Technology, Fellow of the Royal Academy of Engineering and a Companion of the Chartered Management Institute. He is a non-executive director of Reciva Limited and a non-executive director and Chairman of the Audit Committee of De La Rue plc.

Tim Score age 49
Chief Financial Officer

Tim Score joined ARM as Chief Financial Officer and director in March 2002. Before joining ARM, he was Finance Director of Rebus Group Limited. He was previously Group Finance Director of William Baird plc, Group Controller at LucasVarity plc and Group Financial Controller at BTR plc. He is a non-executive director and Chairman of the Audit Committee of National Express Group plc.

Tudor Brown age 51
President

Tudor Brown was one of the founders of ARM. Before joining the Company, he was at Acorn Computers where he worked on the ARM R&D programme. He joined the board in 2001 and became President in 2008 with responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. His previous roles include Engineering Director and Chief Technology Officer, EVP Global Development and Chief Operating Officer. He is a Fellow of the Institution of Engineering and Technology and is a non-executive director of ANT plc. He currently sits on the UK Government China Task Force.

Mike Inglis age 50
EVP and General Manager – Processor Division

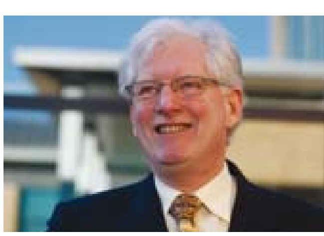
Mike Inglis joined ARM in 2002 and became EVP and General Manager of the Processor Division in July 2008, having previously been EVP, Sales and Marketing. Before joining ARM, he worked in management consultancy with A.T. Kearney and held a number of senior operational and marketing positions at Motorola, Texas Instruments, Fairchild and BIS Macintosh and gained his initial industrial experience with GEC Telecommunications. He is a chartered engineer and a Member of the Chartered Institute of Marketing. He is a non-executive director of Pace plc.

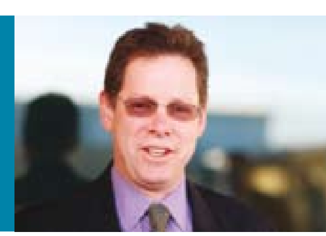
Mike Muller age 51
Chief Technology Officer

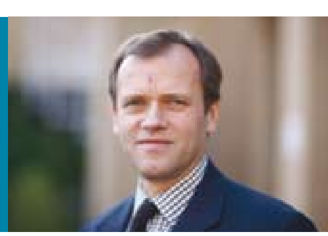
Mike Muller was one of the founders of ARM. Before joining the Company, he was responsible for hardware strategy and the development of portable products at Acorn Computers. He was previously at Orbis Computers. At ARM he was VP, Marketing from 1992 to 1996 and EVP, Business Development until October 2000 when he was appointed Chief Technology Officer. In October 2001, he was appointed to the board.

Simon Segars age 42
EVP and General Manager – Physical IP Division

Simon Segars joined the board in January 2005 and was appointed EVP and General Manager of the Physical IP Division in September 2007. He has previously been EVP, Engineering, EVP, Worldwide Sales and latterly EVP, Business Development. He joined ARM in early 1991 and has worked on many of the ARM CPU products since then. He led the development of the ARM7 and ARM9 Thumb® families. He holds a number of patents in the field of embedded CPU architectures. He is a non-executive director of Plastic Logic Limited.







Lucio Lanza age 65
Independent non-executive director

Lucio Lanza joined ARM as a non-executive director in December 2004 following ARM's acquisition of Artisan. He was a director of Artisan from 1996, becoming Chairman in 1997. He is currently Managing Director of Lanza techVentures, an early stage venture capital and investment firm, which he founded in January 2001. He is also on the board of directors of PDF Solutions, Inc., a provider of technologies to improve semiconductor manufacturing yields. He holds a doctorate in electronic engineering from Politecnico of Milano. He retires by rotation at the AGM on 14 May 2010 and has decided not to stand for re-election.

Kathleen O'Donovan age 52
Independent non-executive director

Kathleen O'Donovan joined the board in December 2006. She is a non-executive director (and was Chairman of the Audit Committee until October 2009) of Prudential plc, a non-executive director and Chairman of the Audit Committee of Trinity Mirror plc and Chairman of the Invensys Pension Scheme. Previously she was a non-executive director and Chairman of the Audit Committees of the Court of the Bank of England, Great Portland Estates plc, EMI Group plc and a non-executive director of O2 plc. Prior to that, she was Chief Financial Officer of BTR plc and Invensys plc and before that she was a partner at Ernst & Young.

Philip Rowley age 57
Independent non-executive director

Philip Rowley joined the board in January 2005. He was Chairman and CEO of AOL Europe, the interactive services, web brands, internet technologies and e-commerce provider until February 2007. He is a qualified chartered accountant and was Group Finance Director of Kingfisher plc from 1998 to 2000 and Deputy CEO and CFO of the General Merchandise Division until 2001. Prior to that, his roles included EVP and Chief Financial Officer of EMI Music Worldwide. He is a non-executive director of HMV Group plc, Misys plc and Promethean World plc and Chairman of Livestation Limited.

John Scarisbrick age 57
Independent non-executive director

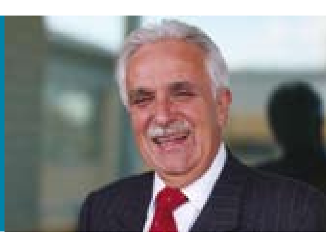
John Scarisbrick joined the board in August 2001. He was CEO of CSR plc from June 2004 until October 2007 and previously worked for 25 years at Texas Instruments (TI) in a variety of roles including as Senior Vice President responsible for TI's $5 billion ASP chip business, President of TI Europe and leader of the team that created TI's DSP business in Houston, Texas. Before joining TI, he worked in electronics systems design roles at Rank Radio International and Marconi Space and Defence Systems in the UK. He is a non-executive director of Intrinsity, Inc. and Innovative Silicon, Inc. and executive Chairman of Netronome Systems, Inc.

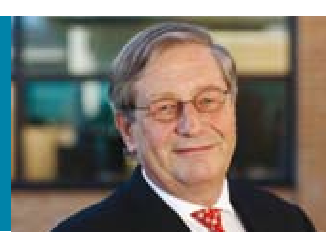
Jeremy Scudamore age 62
Senior independent director

Jeremy Scudamore joined the board in April 2004. He was Chief Executive Officer of Avecia Group (formerly the specialty chemicals business of Zeneca) until April 2006 and previously held senior management positions both in the UK and overseas with Zeneca and ICI. He has been a board member of the Chemical Industries Association and was Chairman of England's North West Science Council. He was also a member of the DTI's Innovation and Growth Team for the Chemical Industry and Chairman of the Innovation Team. He is non-executive Chairman of Boardlink Group Limited and a non-executive director of Oxford Catalysts Group plc and Plant Health Care plc.

Young Sohn age 54
Independent non-executive director

Young Sohn joined the board in April 2007. He has extensive experience in the semiconductor industry both in Silicon Valley and in Asia. He is CEO of Inphi Corporation, a director of Cymer, Inc. and an adviser to Panorama Capital, a Silicon Valley based venture capital firm. Previously he was President of the semiconductor products group at Agilent Technology, Inc. and Chairman of Oak Technology, Inc. Prior to that, he was President of the hard drive business of Quantum Corporation and, before that, Director of Marketing at Intel Corporation.





Shareholder information

ARM Holdings plc is the parent company of the Group
Company Number: 2548782
Incorporated in England & Wales
Domiciled in the UK
Public company limited by shares

Secretary and registered office

Patricia Alsop
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Stockbrokers

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United Kingdom

Investec Bank (UK) Limited
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United Kingdom

Registrars

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Shareholder Helpline
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Depositary

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New York
New York 10286
United States of America

Legal advisers

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Linklaters
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London EC2Y 8HQ
United Kingdom

US Law
Davis Polk & Wardwell
99 Gresham Street
London EC2V 7NG
United Kingdom

Chairman's statement on corporate governance and corporate responsibility

Awards for 2009:
- **2009 Techmark Technology Innovation Award**
- **UK International Trade Award for 2009 sponsored by HSBC**
- **Thomson Reuters Extel – Best Investor Relations in FTSE 250, Best CFO Investor Relations in FTSE 250**

Introduction
I am pleased to say that ARM demonstrated resilience in an extraordinarily tough year in 2009 and is well placed to take advantage of the potential recovery in the wider economy and in consumer demand in 2010. It is also encouraging that our market capitalisation has increased to merit re-entry into the FTSE 100 on 8 February 2010.

Our designs were used in more than 3.9 billion chips in 2009, across an ever increasing range of products, broadening an already impressive footprint and entrenching ARM as a leader not only in chip designs for mobile applications, but also in consumer electronics such as digital TVs and cameras, enterprise applications such as Wi-Fi and disk drivers and embedded products such as motor controllers and smartcards.

ARM designs were in more than 3.9 billion chips in 2009.

ARM's board and executive team recognise that continued success has been achieved through the strength and depth of our stakeholder relationships. The corporate governance framework and processes we have in place enable us to manage the Company effectively and to demonstrate transparent, consistent and effective governance so that we remain accountable to our shareholders, employees, Partners, suppliers and the local communities we support and interact with.

Compliance with the Combined Code and the Sarbanes-Oxley Act 2002 (US)
The Group's corporate governance framework is built around three pillars: organisation and structure, the internal control framework and independent assurance. ARM takes corporate governance very seriously and has integrated governance principles, policies and practices into our everyday working processes. This approach is backed by continuous improvement based on measurement against internal objectives, external audits and benchmarking and a rigorous approach to risk management.

The Group continued to comply with the Combined Code on Corporate Governance 2008 and the requirements of the Sarbanes-Oxley Act 2002 (US).

Corporate governance and role of the board
The Group is committed to high standards of corporate governance and business integrity, which it believes are essential to maintaining the trust of its investors and other stakeholders. The board provides leadership for the Group and is responsible for setting the Group's strategic aims and standards of conduct, monitoring performance against business plans and budgets prepared by the executive team and ensuring that the necessary financial and human resources are in place for it to meet its objectives. All directors and employees are required to act fairly, honestly and with integrity and they are all subject to a Code of Business Conduct and Ethics, a copy of which is published on the corporate website at www.arm.com.

The board has a formal schedule of matters specifically reserved for its decision, which includes the approval of major business issues, policies and operating and capital expenditure budgets. It is also responsible for sanctioning unusual commercial arrangements such as atypical licence agreements and investments. Authority is delegated to various committees that are constituted within written terms of reference and chaired by independent non-executive directors where required by the Combined Code. The Chairman has primary responsibility for running the board and the Chief Executive Officer has executive responsibilities for the operations and results of the Group and making proposals to the board for the strategic development of the Group. There are clear and documented divisions of accountability and responsibility for the roles of Chairman and Chief Executive Officer.

Directors and succession planning
The board reflects a balance between financial, sector specific and general business skills, with a highly experienced international team leading the business in both executive and non-executive roles. It was key to guiding ARM in the challenging economic environment in 2009, providing clear strategic direction and ensuring that the Group's performance and standards of conduct remained at expected levels.

There were no board changes during 2009. At the Annual General Meeting on 14 May 2010 Lucio Lanza retires by rotation and has decided not to stand for re-election. He has been a director since 2004 when ARM acquired Artisan, of which he was Chairman from 1997. On behalf of the Group and my board colleagues, I would like to thank Lucio for the valuable contribution he has made over the past five years through his extensive knowledge of the semiconductor industry and the US market. As part of our succession plans, John Scarisbrick, who has been a director since August 2001, will be retiring from the board at the Annual General Meeting in 2011. The Nomination Committee has started the process of identifying suitable replacements for these non-executive director roles and details will be announced at the appropriate time.

Remuneration
ARM continued its conservative approach to remuneration in 2009, in line with market uncertainty around the timing and scope of the global economic recovery. We maintained a freeze on pay at all levels throughout 2009 (the only exception being for employee promotions) and we continued to retain and recruit the talented people who are critical to the continued success of our business.

Despite the tough market conditions over the past two years, the minimum targets set three years ago under the Long Term Incentive Plan (LTIP) were exceeded and our teams will be rewarded for their performance, details of which are set out in full in the Remuneration Report. The board is not proposing any new remuneration schemes or any changes to the existing LTIP and Deferred Annual Bonus Plan in 2010.

Engagement with stakeholders
We continued to develop our engagement with stakeholders in 2009, strengthening our relationships and expanding the ARM network of Partners and our Connected Community.

ARM's University Programme is an important initiative for the future of the business and our relationships with business partners. We engage with universities around the world, developing the next generation of ARM engineers, donating equipment and software, assisting students, helping to design courses and providing technical support and training. In 2009 the programme strengthened its commitment to institutions in India and China to nurture growing talent. ARM and our Partners are seeing the benefit of the University Programme as students are graduating with experience in designing with ARM products and as university engineering departments base their own research around ARM technology.

Throughout 2009 ARM has supported the Cambridge Network which links like-minded people from business and academia See page 38

I am also pleased to report major progress in our engagement with investors and sell-side analysts in 2009, where the number of analysts covering the Company doubled to about 30, increasing support and advice for our investors, specifically those in the US. We plan to further enhance investor support in 2010 through improved online communications giving investors better access to the information they need to understand ARM's business, its strategy and how ARM is progressing against its key performance metrics.

Corporate responsibility
ARM continued its support for science and IT related education through the Engineering Education Scheme, Young Engineers and Young Enterprise, the Cambridge University Entrepreneurs, University of Texas College of Communication, Cambridge University Engineering Society and primary educational establishments.

In January 2009, ARM was presented with a 1 star award in the Sunday Times 'Best Company to Work For' survey, recognising us as a "first-class" employer
See page 37

Our commitment to the environment extends beyond the energy efficiency and power saving that our technology-based chips help to achieve. In our UK offices, where ARM procures its own energy, supplies are from renewable sources and a greener energy procurement policy is being extended to our other offices where possible.

Our technology allows our Partners to develop smarter digital electronic products that can measure, manage and control the environmental performance of consumer electronics and IT equipment, improving performance and reducing the carbon footprint for some of the products that we all use, every day. ARM is working with suppliers to minimise environmental impact.

In the UK, ARM's recycling of cardboard and paper grew by 105% from 2006 to 2009
See page 38

More details about our approach to corporate responsibility is set out in the Corporate Responsibility Report, a more detailed version of which is published on our website at www.arm.com.

2010 marks ARM's 20th anniversary
As a business recognised for its innovation and world class intellectual property, ARM has been built around the highest quality people in the sector. As we enter our 20th year as leader in our market, I would like to thank the teams worldwide who have made ARM a great success story.

Our stakeholders and Partners will continue to benefit from our open, clear and consistent approach in 2010 and beyond as we expand into our targeted market segments and position ARM for further decades of success.

D. J. Dunn

Doug Dunn
Chairman

Corporate governance

Statement of Compliance with the Combined Code
The Group complies, and complied throughout 2009, with the Combined Code on Corporate Governance 2008 which is publicly available at www.frc.org. The remainder of this section together with the remuneration report detail how the Group has applied these principles of good governance.

Composition and operation of the board
The Combined Code requires that at least half of the board, excluding the Chairman, should comprise independent non-executive directors and the board currently comprises six executive directors, six independent non-executive directors and the Chairman. The Chairman was regarded as independent at the time of his appointment. The executive directors are the Chief Executive Officer, the President, the Chief Financial Officer, the Chief Technology Officer and the General Managers of the Processor and Physical IP Divisions, all of whom play significant roles in the day-to-day management of the business. The board has considered the overall balance between executive and non-executive directors and believes that the number of executive directors is fully justified by the contribution made by each of them. All directors have completed conflicts of interest questionnaires and any planned changes in their directorships outside the Group are subject to prior approval by the board. No conflicts of interest arose in 2009 and no situations were identified that might lead to a conflict of interests.

The board reviews the independence of the non-executive directors on appointment and at appropriate intervals and considers the six non-executive directors to be independent in character, judgement and behaviour, based on both participation and performance at board and committee meetings. There are no relationships or circumstances which are likely to affect the judgement of any of them. Jeremy Scudamore, who has a strong background in industry and commerce, is the Senior Independent Director. In this role, he provides a communication channel between the Chairman and non-executive directors and is available to discuss matters with shareholders, if required. Lucio Lanza, John Scarisbrick and Young Sohn all have a broad understanding of the Group's technology and the practices of major US-based technology companies. Philip Rowley and Kathleen O'Donovan are both financial experts with strong financial backgrounds. The beneficial interests of the directors in the share capital of the Company are set out in the remuneration report. In the opinion of the board, these shareholdings do not detract from the non-executive directors' independent status.

The table below shows directors' attendance at scheduled board meetings and conference calls or ad hoc meetings which they were eligible to attend during the 2009 financial year:

	Scheduled board meetings	Conference calls/ad hoc meetings
Number	7	5
Doug Dunn	7/7	5/5
Warren East	7/7	4/5
Tudor Brown	6/7	3/5
Mike Inglis	7/7	5/5
Lucio Lanza	7/7	5/5
Mike Muller	7/7	4/5
Kathleen O'Donovan	6/7	5/5
Philip Rowley	7/7	5/5
John Scarisbrick	7/7	4/5
Tim Score	7/7	3/5
Jeremy Scudamore	7/7	5/5
Simon Segars	7/7	4/5
Young Sohn	7/7	5/5

The Chairman is a non-executive director of four other companies (ST Microelectronics N.V., Soitec S.A., TomTom N.V. and B E Semiconductor Industries N.V., which he joined in May 2009), he does not chair any other board.

Non-executive directors have the opportunity to influence agendas for board discussions and in 2009 were active in setting the agenda for the ongoing strategic review and ensuring the amount of time spent reviewing strategic and operational issues was appropriately balanced. The board holds at least one meeting each year in one of the Group's overseas offices and spent three days visiting the Physical IP business in San Jose in 2009. In the event that directors are unable to attend a meeting or a conference call they receive and read the papers for consideration at that meeting and have the opportunity to relay their comments and if necessary to follow up with the Chairman or the Chief Executive Officer after the meeting. During 2009, the Chairman held at least five meetings with the non-executive directors without the executives present and the non-executive directors met on at least one occasion without the Chairman being present.

The directors have the benefit of directors' and officers' liability insurance and there is an established procedure for individual directors, who consider it necessary in the furtherance of their duties, to obtain independent legal or other professional advice at the Group's expense. In addition, all members of the board have access to the advice of the Company Secretary. The Company Secretary also acts as Secretary to the Board Committees.

Main responsibilities of the Chairman include:

- leadership of the board and creating the conditions for overall board and individual director effectiveness and a constructive relationship with good communications between the executive and non-executive directors;
- ensuring that the board as a whole plays a full and constructive part in the development of strategy and overall commercial objectives;
- chairing the Nomination Committee which initiates succession planning to retain and build an effective and complementary board;
- ensuring that there is effective communication with shareholders and that members of the board develop an understanding of the views of the major investors in the Company;
- promoting the highest standards of integrity, probity and corporate governance throughout the Company, particularly at board level; and
- ensuring that the performance of the board as a whole, its Committees, and individual directors is formally and rigorously evaluated at least once a year.

Main responsibilities of the Chief Executive Officer include:

- proposing and developing the Company's strategy and overall commercial objectives in conjunction with the executive committee;
- day-to-day management of the Group;
- managing the executive committee;
- leading the communication programme with shareholders and analysts; and
- fostering good relationships with key stakeholders.

Information and communication with shareholders

Before each meeting, the board is provided with information concerning the state of the business and its performance in a form and of a quality appropriate for it to discharge its duties. The ultimate responsibility for reviewing and approving the annual report and accounts and the quarterly reports and for ensuring that they present a balanced assessment of the Group's position, lies with the board. The board delegates day-to-day responsibility for managing the Group to the executive committee and has a number of other committees, details of which are set out below.

The board makes considerable efforts to establish and maintain good relationships with shareholders. The main channel of communication continues to be through the Chief Executive Officer, the Chief Financial Officer and the VP of Investor Relations, although the Chairman, the Senior Independent Director and the other non-executive directors are available to engage in dialogue with major shareholders as appropriate.

There is regular dialogue with institutional shareholders throughout the year other than during close periods. The board also encourages communication with private investors and part of the Group's website is dedicated to providing accurate and timely information for all investors including comprehensive information about the business, its Partners and products, all press releases, RNS and Securities and Exchange Commission (SEC) announcements. At present, around 30 analysts write research reports on the Group and their details appear on the Group's website. Shareholders can also obtain telephone numbers from the website, enabling them to listen to earnings presentations and audio conference calls with analysts and in addition, webcasts or audiocasts of key presentations are made available through the website. Members of the board attend the annual analyst and investor day and develop an understanding of the views of major shareholders through any direct contact that may be initiated by shareholders, or through analysts' and brokers' briefings. The board also receives feedback from the Group's brokers and financial PR advisers, who obtain feedback from analysts and brokers following investor roadshows. All shareholders may register to receive the Group's press releases via the internet.

The board actively encourages participation at the Annual General Meeting (AGM), scheduled for 14 May 2010, which is the principal forum for dialogue with private shareholders. A presentation is made outlining recent developments in the business and an open question-and-answer session follows to enable shareholders to ask questions about the business in general.

All resolutions proposed at the 2010 AGM will be decided on a poll and the voting results will be published via RNS and the SEC and will be available on the Group's website.

Board evaluation, induction and training

The board undertakes an annual board evaluation. During 2009, this exercise was conducted internally with directors completing detailed questionnaires which were compiled into a report by the Company Secretary. This report was considered by the board and formed the basis for individual discussions between the Chairman and each director. The evaluation covered:

- strategic development, execution and monitoring;
- risk management and control;
- leadership development and succession planning;
- shareholder and stakeholder communication;
- performance management;
- board structure, committees, operations and effectiveness;
- board committee processes; and
- induction, development and evaluation.

The overall conclusion was that individual board members are satisfied that the board works well and operates effectively in an environment where there is constructive challenge from the non-executive directors. They are also satisfied with the contribution made by their colleagues and that board committees operate properly and efficiently. Various recommendations resulted from the evaluation which have been discussed by the board and will be acted upon in 2010, as appropriate. It is intended that the board evaluation to be conducted in 2010 will involve external consultants.

A full, formal induction programme is arranged for new directors, tailored to their specific requirements, the aim of which is to introduce them to key executives across the business and to enhance their knowledge and understanding of the Group and its activities. The Group has a commitment to training and all directors, executive or non-executive, are encouraged to attend suitable training courses at the Group's expense. During 2009, the board received training from external lawyers on UK and US Corporate Governance matters.

The terms of reference of the audit, remuneration and nomination committees are published on the Group's website at www.arm.com.

Audit committee

Name of director	Position	Meetings attended
Philip Rowley (Chairman)	Independent non-executive director	4/4
Kathleen O'Donovan	Independent non-executive director	4/4
Jeremy Scudamore	Senior Independent Director	4/4
Young Sohn	Independent non-executive director	3/4

Lucio Lanza stepped down from the committee in May 2009 and up to that time he attended all meetings. Philip Rowley is the financial expert as defined in the Sarbanes-Oxley Act 2002 (US) and Kathleen O'Donovan is also qualified to fulfil this role. Both have recent and relevant financial expertise. The external auditors, Chief Executive Officer, Chief Financial Officer, the VP Corporate Operations and the Company Secretary attend all meetings in order to ensure that all the information required by the audit committee for it to operate effectively is available. Representatives of the Group's external auditors meet with the audit committee at least once a year without any executive directors being present. The committee's responsibilities include:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing any significant financial reporting judgements contained therein;
- reviewing the effectiveness of the Group's internal controls over financial reporting;
- providing oversight of the Group's risk management systems;
- making recommendations to the board in relation to the appointment, remuneration and resignation or dismissal of the Group's external auditors;
- assessing the external auditors' independence and objectivity and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services and assessing their nature, extent and cost effectiveness; and
- considering compliance with legal requirements, accounting standards, the Listing Rules of the Financial Services Authority and the requirements of the SEC.

PricewaterhouseCoopers LLP have been the Group's auditors since it listed on the London Stock Exchange in April 1998. The audit committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require the firm to tender for the audit work. The external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every five years and the current lead audit partner has been in place since July 2007. There are no contractual obligations restricting the Group's choice of external auditor. The committee also keeps under review the value for money of the audit. The committee has discussed with the external auditors their independence, and has received and reviewed written disclosures from the external auditors as required by the Auditing Practices Board's International Standard on Auditing (ISA) (UK and Ireland) 260 "Communication of audit matters with those charged with governance", as well as those required by the Public Company Accounting Oversight Board Rule 3526, "Communication with Audit Committees concerning independence".

In 2009 the activities of the committee included:

- a review of the internal audit function and the role of the Corporate Operations Group;
- reviewing the 2009 internal and external audit plans and reports on overseas subsidiaries;
- considering and approving the assumptions in the annual impairment review;
- reviewing the status of Sarbanes-Oxley compliance and testing;
- re-approval of the pre-approved non-audit services policy; and
- external auditors' performance and fees.

Policy on auditors providing non-audit services
To avoid the possibility of the auditors' objectivity and independence being compromised, there is an agreed policy in place on the provision of non-audit services by the auditors, which sets out arrangements for approving:

- services that have general pre-approval by the audit committee;
- services that require specific pre-approval by the audit committee before work commences; and
- services that cannot be provided by the auditors.

The Group's tax advisory work is carried out by the auditors only in cases where they are best suited to perform the work in a cost effective manner, given their familiarity with the Group's business. In other cases, the Group has engaged another independent firm of accountants to perform tax advisory work. The Group does not normally award general consulting work to the auditors. From time to time, however, the Group will engage the auditors to perform work on matters relating to benchmarking of the internal audit function, human resources, and royalty audits. A breakdown of fees paid to the auditors can be found in note 5 to the financial statements.

Remuneration committee
A description of the composition, responsibility and operation of the remuneration committee is set out in the remuneration report.

Nomination committee

Name of director	Position
Doug Dunn	Chairman
Lucio Lanza	Independent non-executive director
Philip Rowley	Independent non-executive director
John Scarisbrick	Independent non-executive director

There were no meetings of the Nomination Committee and no new appointments to the board in 2009. The committee leads the process for board appointments and makes recommendations to the board in relation to new appointments of executive and non-executive directors and on succession planning, board composition and balance. The committee considers the roles and capabilities required for each new appointment, based on an evaluation of the skills and experience of the existing directors. In relation to the planned appointment of new non-executive directors to succeed Lucio Lanza in 2010 and John Scarisbrick in 2011, it is intended that external search consultancies will be used.

Executive committee
The executive committee is responsible for developing and implementing the strategy approved by the board. In particular, the committee is responsible for ensuring that the Group's budget and forecasts are properly prepared, that targets are met and for generally managing and developing the business within the overall budget. Variations from the budget and changes in strategy require approval from the main board of the Group. The executive committee, which meets monthly, comprises the Chief Executive Officer, Chief Financial Officer, the President, the Chief Operating Officer, the Chief Technology Officer, the General Managers of the Processor, Physical IP, System Design and Media Processing Divisions, the EVPs of Human Resources, Corporate Development, Sales and Marketing, the General Counsel and the Company Secretary and meetings are attended by other senior operational personnel, as appropriate. Biographies of the members of the executive committee appear on the Group's website at www.arm.com.

Internal control/risk management
The Group fully complies with the Combined Code's provisions on internal control, having established procedures to implement the Turnbull Guidance 2005. The board has established a continuous process for identifying, evaluating and managing the significant risks faced by the Group. The board confirms that the necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from this process.

The board of directors has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness, while implementation of internal control systems is the responsibility of management. The Group has implemented an internal control system designed to help ensure:

- the effective and efficient operation of the Group and its divisions by enabling management to respond appropriately to significant risks to achieving the Group's business objectives;
- the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- the quality of internal and external reporting;
- compliance with applicable laws and regulations and with internal policies on the conduct of the Group's business; and
- the ability to recover in a timely manner from the effects of disasters or major accidents which originate outside the Group's direct control.

Compliance with section 404 of the Sarbanes-Oxley Act 2002 (US) has been successfully achieved for each financial year since it became effective for foreign private issuers in 2006. This is reported on in more detail in the annual report on Form 20-F that is filed with the SEC. The processes and procedures for identifying, evaluating and managing the significant business, operational, financial, compliance and other risks facing the Group have been successfully integrated into day-to-day business operations through the ARM Management System and are proven to provide a sustainable solution for ongoing compliance. The board has reviewed the system of internal control, including internal controls over financial reporting, which has been in place for the year under review and up to the date of approval of the annual report and financial statements. Such systems are designed to manage rather than eliminate the risks inherent in a fast-moving, high-technology business and can, therefore, provide only reasonable and not absolute assurance against material misstatement or loss.

The Group has a number of other committees and bodies which contribute to the overall control environment. These include:

Risk review committee
The risk review committee consists of the Chief Technology Officer, the Chief Financial Officer, the VP Finance, ARM Group and the Company Secretary and it receives and reviews quarterly reports from the divisions and corporate functions. The committee is responsible for identifying and evaluating risks which may impact the Group's strategic and business objectives and for monitoring the progress of actions designed to mitigate such risks. The risk review committee reports formally to the executive committee twice a year where its findings are considered and challenged and reports to the board at least once a year.

Compliance committee
The compliance committee consists of the General Counsel, the Chief Operating Officer, the Chief Financial Officer, the EVP Human Resources, the VP Corporate Operations, the Chief Information Officer and the Company Secretary. It oversees compliance throughout the business with all appropriate international regulations, trading requirements and standards, including direct oversight of financial, employment, environmental and security processes and policies. The compliance committee has a reporting line to the audit committee.

Disclosure committee
The disclosure committee comprises the Chief Executive Officer, the Chief Financial Officer, the VP Finance, ARM Group, the General Counsel, the VP of Investor Relations and the Company Secretary. It is responsible for ensuring that disclosures made by the Group to its shareholders and the investment community are accurate, complete and fairly present the Group's financial condition in all material respects.

Operational meetings
In addition, there is a series of interconnected meetings that span the Group including the weekly executive team meeting chaired by the Chief Executive Officer and the weekly business review meeting chaired by the Chief Operating Officer, the purpose of which is to monitor and control all main business activities, sales forecasts and other matters requiring approval. Each month there are Operations and Customer Satisfaction Meetings where management reviews with representation from the divisions and functions across the Group; revenues, orders booked, costs, product and project delivery dates and levels of defects found in products in development. The outputs of these meetings are reviewed by the executive committee which, in turn, raises relevant issues with the board of the Group.

Internal audit function
During 2009, the audit committee and management, with advice from PricewaterhouseCoopers LLP (PwC), reviewed the activities of the finance team and the internal Corporate Operations Group (COG) which is responsible for operating the Group's management system and conducting operational internal audits in line with the plan approved annually by the audit committee. PwC benchmarked these activities against the internal audit functions in comparable companies and it was advised that the current arrangements would constitute an internal audit function that meets criteria set out in the key practice standards prescribed by the Institute of Internal Auditors. A number of steps were identified to enhance the internal audit function through rebalancing the emphasis between operational and financial audit. These are being implemented during 2010 and will involve a more formal and rigorous risk assessment process, a broadening of the scope of the internal audit programme, the appointment of an internal audit manager and an increase in the financial capability within COG.

The Group's management system documents processes and responsibilities across all business functions and operations. As an autonomous part of this system, the operational audit function carries out a programme of audits to assess its effectiveness and efficiency, resulting in continuous maintenance and improvement of the system, adapting to changes in business operations as necessary. To demonstrate compliance with the Sarbanes-Oxley Act, the audit function also maintains the documented controls over financial reporting and confirms the operation of them either by direct testing or through a monitored self-assessment programme. The management system is audited externally by Lloyd's Register Quality Assurance for compliance with ISO9001:2008 and as part of its Business Assurance scheme supports the Sarbanes-Oxley compliance activity.

Any significant control failings identified through the operational audit function or the independent auditors are brought to the attention of the compliance committee and undergo a detailed process of evaluation of both the failing and the steps taken to remedy it. There is then a process for communication of any significant control failures to the audit committee. There were no significant control failures during 2009 or up to 28 March 2010, being the latest practicable date before the printing of this report.

Whistleblowing procedures
The Group operates a whistleblowing policy which provides for employees to report concerns about any unethical business practices to senior management in strict confidence or, if they prefer, anonymously through an independent third-party telephone line. They can do so without fear of recrimination. The audit committee receives any such confidential reports from the compliance committee. There were no whistleblowing reports in 2009 and none up to 28 March 2010, being the latest practicable date before the printing of this report.

Environmental, social, corporate governance and ethical policies
While the Group is accountable to its shareholders, it also endeavours to take into account the interests of all its stakeholders, including employees, customers and suppliers and the local communities and environments in which it operates. The Chief Financial Officer takes responsibility for these matters, which are considered at board level. A corporate responsibility (CR) report is included in this report and a more detailed version is available via the Group's website www.arm.com. The Group's Code of Business Conduct and Ethics is also available on the Group's website and the Group regularly monitors employees' awareness of Group policies and procedures, including its ethical policies. Employees reconfirm their understanding of key policies each year to reinforce awareness.

As a company whose primary business is the licensing of IP, employees are highly valued and their rights and dignity are respected. The Group strives for equal opportunities for all its employees and does not tolerate any harassment of, or discrimination against, its staff. The Group endeavours to be honest and fair in its relationships with its customers and suppliers and to be a good corporate citizen respecting the laws of the countries in which it operates.

The Group's premises are composed entirely of offices since it has no manufacturing activities. Staff make use of computer-aided design tools to generate IP. This involves neither hazardous substances nor complex waste emissions. With the exception of development systems products, the majority of "products" sold by the Group comprise microprocessor core and physical IP designs that are delivered electronically to customers.

A number of initiatives in this area have continued in 2009. The Group's environmental policy is published on its website within the CR report. An environmental action plan is implemented through various initiatives. These include monitoring energy usage, resource consumption and waste creation so that targets set for improvement are realistic and meaningful, ensuring existing controls continue to operate satisfactorily and working with suppliers to improve environmental management.

In line with the Companies Act 2006, the articles of association enable the Group to send information to shareholders electronically and make documents available through the website rather than in hard copy, which provide both environmental and cost benefits. Shareholders can opt to continue receiving a printed copy of the annual report if they prefer.

Health and safety
Although ARM operates in an industry and in environments which are considered low risk from a health and safety perspective, the safety of employees, contractors and visitors is a priority in all ARM workplaces world-wide. Continual improvement in safety management systems is achieved through detailed risk assessments to identify and eliminate potential hazards and through occupational health assessments for employees. More detail about the Group's approach to environmental matters and health and safety is included in the CR report.

By order of the board

Patricia Alsop
Company Secretary

Corporate responsibility

ARM's corporate responsibility (CR) programme encompasses accountability to shareholders, commitment to employees and their families, service to our partners, fostering good relationships with suppliers, involvement with local communities and minimising our impact on the environment. Within each of these pillars, we focus on continuous improvement measured by internal objectives, external audits and benchmarking.

Employer awards

ARM endeavours to attract and retain the best people available by being a good and ethical employer. In the UK, ARM participated in the Sunday Times "Best Company to Work For" survey in 2008 and in January 2009, was presented with a 1 star award recognising us as a "first class" employer.

Benefits and communication

Employees receive benefits including private medical/healthcare; health, travel and life insurance; pensions/401k plan, sabbaticals and flexible working. ARM aligns the interests of employees and shareholders by providing equity participation through restricted shares under the Employee Equity Plan and the opportunity to buy shares through savings plans. ARM supports family-friendly initiatives such as a child care voucher scheme in the UK and a flexible spending account in the US. ARM promotes knowledge sharing among employees and holds regular internal conferences to increase awareness, enable collaboration between engineering teams and to educate employees on corporate and divisional strategy.

Feedback, development and training

ARM recognises the importance of enabling employees to learn and develop, encouraging each individual to embark on a path of self-betterment using a blend of reflection and feedback, coaching, mentoring, training and education. At least once a year, employees and managers have a formal discussion on performance and development through the ARM Feedback and Development System. Training needs are tracked and delivered and progress is monitored through our Learning and Development team, ensuring that the Group's skills base is increased in line with business needs and personal aspirations.

Health and safety

The safety and welfare of employees, contractors and visitors is a priority. ARM has adopted UK health and safety legislation as the global corporate standard due to its depth and breadth and maintains membership of the British Safety Council to reflect this standard. ARM's global internal audit programme together with the Facilities Management Review, evaluate health and safety performance across all sites with a goal of consistency of health and safety provision worldwide. In 2009, this process was further developed with guidance from our external auditors, Lloyds Register Quality Assurance (LRQA) to enhance consistent corporate standards and to introduce a Global Office Management Process. Since incorporation, ARM has had no serious issues and retains a very low accident rate – less than two recorded accidents per 100 employees annually. Health and safety issues are communicated to employees through various media including the intranet, email and workshops. As part of ARM's induction process, an extensive workshop introduces new employees to health and safety information relevant to the office in which they work and Group policies applicable across all sites.

Suppliers

The Company engages in dialogue with larger vendors to assess their CR credentials. ARM evaluates suppliers on several factors including vendor policies (where applicable) and the reputation of the supplier or contractor. ARM encourages suppliers and contractors to abide by its Human Rights and Ethical Trading Policy. ARM continues to work with suppliers and service providers to minimise environmental impact, wherever practicable.

Team ARM raised more than $25,000 for good causes in 2009.

Support for local communities – Team ARM

ARM believes it is a good corporate citizen which invests in and engages with local communities. In 2009 ARM established "Team ARM" as a vehicle for employees to assist local communities and promote employee wellness and development through coordinated events. Team ARM was piloted in our corporate headquarters and is now a global effort involving regional groups of employees. In its inaugural year, more than 200 employees and family members participated in Team ARM events, including running and cycling, food, toy and school supply drives for those experiencing hardship, and cultural events. In its first year, Team ARM raised more than $25,000 for good causes through fundraising, sponsorship and charitable gift matching by ARM.

ARM also encourages employees to support their local communities by providing paid volunteer time for employees who act as school governors, mentors to young people, or volunteers to organise events to raise money for charity. Some employees volunteer time for work on engineering projects with school and college students.

Business community

ARM is a founding member of both The Learning Collaboration and the Cambridge Network as well as a founding sponsor of the Electronics Knowledge Transfer Network. Throughout 2009 ARM has supported the Cambridge Network which links like-minded people from business and academia to each other and to the global high technology community for the benefit of the Cambridge region. ARM provided offices and facilities to the organisation. In 2008, ARM co-founded the Cambridge Business Lectures whose lectures are free to participants through corporate sponsorship.

Environment

ARM designs technology at the heart of low-power products across a wide range of application areas. Intelligence within its low-power IP cores can be used to measure, manage and control the environmental performance of consumer electronics and IT equipment, while improving functional performance and reducing carbon footprint. Additionally, ARM can leverage its Connected Community™ of partners to provide complete low-power solutions for products based on the ARM architecture.

ARM's activities do not produce harmful waste or emissions and the Ethical Investment Research Service (EIRIS) grades ARM as an environmentally "low impact" business. However, ARM recognises the need to mitigate any form of environmental impact and our environmental performance is measured against targets to reduce resource usage, increase reuse and recycling and control carbon emissions. In 2009 ARM began working with Trucost to establish a complete picture of its direct carbon impact globally. Upon completion of this project ARM will have a more detailed benchmark to build its carbon reduction programmes on.

ARM works with environmental auditors from LRQA to develop and improve our environmental management system. LRQA's twice yearly environmental and health and safety themed audits are now integrated with their other accreditation work, which has increased understanding of ARM's environmental objectives among our local management and provided action plans for achieving these objectives. Adopting LRQA's Business Assurance approach provides an independent assessment of the ARM Management System and the various review procedures in place within the Group. LRQA's Business Assurance scheme supports the Sarbanes-Oxley compliance activity and verifies ARM's compliance with ISO9001:2008 and components of other relevant ISO standards.

In UK offices where ARM procures its own energy, supplies are from renewable sources. The application of a greener policy on energy procurement is being extended to other ARM locations where practicable. For example, our 92,000 sq ft office in San Jose, California has incorporated some of the building technologies that score towards the Leadership in Energy & Environmental Design (LEED) Green Building Rating System and this principle will be implemented in future sites where feasible.

In 2009 ARM participated for the first time in the Carbon Disclosure Project. Monitoring and analysis of energy usage and methods to reduce associated impacts ensures all our operations become engaged in improvement objectives. Whilst we fall below the 6MWh criteria of the Carbon Reduction Commitment in the UK, we are well prepared for the reporting requirements of new legislation. In 2008, ARM implemented an off-site regional Data Centre in the US and, by centralising these services, the number of server rooms distributed across multiple ARM locations was reduced with an associated reduction in environmental impact. Usage of this facility has increased in 2009.

ARM is increasing the range of data it gathers across its operations to benchmark environmental performance. Overall the three largest offices (Cambridge, San Jose and Bangalore) reduced carbon emissions by 9.33% in 2009 compared to 2008.

ARM continues to assess its waste management strategies and improve the provision for recycling. Paper, cardboard packaging, glass, aluminium and plastic can be recycled in many locations. In the UK, recycling of cardboard and paper grew by 7.5% from 2008 to 2009 (105% from 2006 to 2009). In addition, ARM's UK waste production decreased by 7.6% from 2008 to 2009 and waste is now sorted offsite to ensure further that recycling is carried out.

CO_2 emissions Tonnes per employee*

* Data based on subset of ARM offices only – complete cross Company monitoring will be implemented in 2010.

Travel
ARM recognises the environmental impact of travel and employees are encouraged to cycle to work, to share car journeys, or to use public transport. Consistent with local custom and practice, bus transport is provided for employees in Bangalore to minimise the environmental impact of individual travel to work and to reduce congestion.

Business travel, particularly by air, is important to maintain ARM's very effective partner relationships, but ways this can be reduced are regularly reviewed. Video conferencing is utilised where practicable and we are progressively upgrading our equipment to make this option more effective. Data regarding flights is benchmarked with a view to reducing business travel while ensuring that good business relationships are maintained. Despite ARM's increased headcount and number of locations, over the four years that ARM has recorded flight data, there has been a 23% reduction in flight-related emissions between 2006 and 2009.

Ethics and equal opportunities
ARM recognises its ethical responsibilities to all stakeholders which are manifested in a range of policies and processes. ARM conducts its business with integrity, respecting cultures and the dignity and rights of individuals. The Group has an obligation to promote respect for and observance of human rights and fundamental freedoms for all, without distinction as to colour, ethnic origin, gender, age, religion or similar belief, political or other opinion, disability or sexual orientation.

Business continuity plans
ARM has developed business continuity plans for all of its operations worldwide to enable business to continue should a serious event or incident occur. These plans are designed to protect the interests of ARM's stakeholders and in particular ARM's employees, property and other assets and to provide facilities and infrastructure to reinstate business operations as quickly as possible after an event. The continual review of these plans forms part of the management review process alongside environmental management and health, safety and welfare. During 2009, the Company launched several initiatives to strengthen our ability to respond effectively including benchmarking ARM's Business Continuity Plans against the British Standard BS25999. This has involved a complete review of current practices and documentation resulting in improved planning for contacting employees and managing press and other external stakeholder expectations.

A more detailed CR report is available on our website at www.arm.com

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2009.

Description of operations, principal activities and review of business

The principal operations and activities of the Group and its subsidiaries are the licensing, marketing, research and development of RISC-based microprocessors, physical IP and associated systems IP, software and tools. The nature of the global semiconductor industry is such that most of its business is conducted overseas and, to serve its customers better, the Group has sales offices around the world. These include six offices in the US and offices in Shanghai, Shenzhen and Beijing, PR China; Shin-Yokohama, Japan; Seoul, South Korea; Taipei, Taiwan; Kfar Saba, Israel; Paris, France; Munich, Germany and Bangalore, India. Design offices are based in Cambridge, Maidenhead, Sheffield and Blackburn, UK; Sophia Antipolis and Grenoble, France; Leuven-Heverlee, Belgium; Aachen and Grasbrunn, Germany; Trondheim, Norway; Sentjernej, Slovenia; Lund, Sweden; Austin, Texas, Olympia, Washington and San Jose, California in the US and Bangalore, India. More information about the business, its operations and key performance indicators are set out in the business review comprising the Chairman's Statement on pages 29 and 30, the Chief Executive Officer's Review of Operations on pages 9 to 16, the Financial Review on pages 19 to 23 and the Corporate Responsibility Report on pages 37 to 39. The Group's statement on corporate governance can be found in the Corporate Governance Report on pages 31 to 36 of these financial statements. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross reference.

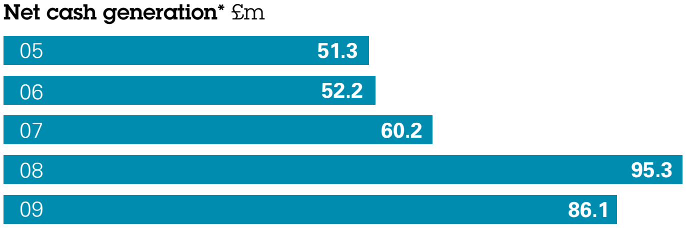
Future developments

The Group's stated objective is to establish a global standard for its RISC architecture, physical IP and other products in the embedded microprocessor and semiconductor markets. The directors believe that, in order to achieve this goal, it is important to expand the number and range of potential customers for its technology. The Group intends to enter into licence agreements with new customers and to increase the range of new technology supplied to existing customers. Relationships will continue to be established with third-party tools and software vendors to ensure that their products will operate with the Group's products. As a result of its position in its industry, the Group is presented with many opportunities to acquire complementary technology or resources and it intends to continue to make appropriate acquisitions from time to time.

Going concern

After dividend payments of £29.0 million in 2009, the highly cash generative nature of the business enabled the Group to increase its cash, cash equivalents, short-term investments and marketable securities balance to £141.8 million at the end of 2009 from £78.8 million at the start of the year. After reviewing the 2010 budget and longer-term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the parent company.

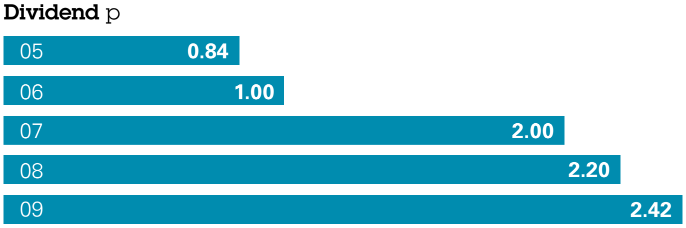
Net cash generation* £m



Dividends

The directors recommend payment of a final dividend in respect of the year to 31 December 2009 of 1.45 pence per share which, subject to approval at the Annual General Meeting (AGM) on 14 May 2010, will be paid on 19 May 2010 to shareholders on the register on 30 April 2010. This final dividend, combined with the interim dividend of 0.97 pence per share paid during the year, makes a total of 2.42 pence per share for the year, an increase of 10% on the total dividend of 2.20 pence per share for 2008.

Dividend p



* Net cash generation is defined as movement on cash, cash equivalents, short-term investments and marketable securities, adding back share buybacks, dividend payments, investment and acquisition consideration, restructuring payments, other acquistion-related payments and share-based payroll taxes, and deducting inflows from share option exercises and proceeds from investment disposals. See page 20.

Share buyback programme
No share buybacks were undertaken in 2009 and none have been purchased to date in 2010. The rolling authority to buy back shares given by the shareholders at the AGM in May 2009 remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2010 AGM.

Research and development (R&D)
R&D is of major importance and, as part of its research activities, the Group collaborates closely with universities worldwide and plans to continue its successful engagement with Michigan University. Key areas of product development for 2010 include the development of further energy efficient, high-performance engines for both data and control applications such as ARM cores based on symmetric multiprocessor and superscalar technology. The Group is investing in future physical IP development including low-power, low-leakage technologies for both bulk CMOS (complementary metal oxide semiconductor) and SOI (silicon on insulator) processes to ensure leadership in this market. In addition, the Group will deliver development tools, graphics and video processors and fabric IP to enable its customers to design and programme systems-on-chip (SoCs).

The Group incurred R&D expenses of £112.2 million in 2009, representing 36.8% of revenues, compared with £87.6 million in 2008. R&D expenses have been charged to the income statement since the requirements for capitalisation were not met. The requirements for capitalisation are considered in more detail in note 1 to the financial statements.

Donations
During the year the Group made donations for charitable purposes of £34,292 (2008: £42,290). The total amounts given for each such purpose were:

	£
Wider understanding of science, maths and information technology	10,000
Local charities	7,608
Medical research	5,850
Other	5,339
Relief of poverty	4,323
Promotion of education	1,172

ARM employees are encouraged to offer their time and expertise to help charities and other groups in need. The Group operates a gift matching system for individual employees' fundraising efforts and offered this in respect of donations made by employees to nominated charities following the earthquake in Haiti. The Group does not make any political donations.

Directors in the year
The following served as directors of the Company during the year ended 31 December 2009:

Doug Dunn OBE (Chairman)
Warren East (Chief Executive Officer)
Tim Score (Chief Financial Officer)
Tudor Brown (President)
Mike Muller (Chief Technology Officer)
Mike Inglis (General Manager, Processor Division)
Simon Segars (General Manager, Physical IP Division)
Lucio Lanza (independent non-executive director)
Kathleen O'Donovan (independent non-executive director and financial expert)
Philip Rowley (independent non-executive director and financial expert)
John Scarisbrick (independent non-executive director)
Jeremy Scudamore (Senior Independent non-executive director)
Young Sohn (independent non-executive director)

(See pages 26 and 27 for the directors' biographies.)

Election and re-election of directors
In accordance with Article 79 of the Company's articles of association, Kathleen O'Donovan, Young Sohn and Warren East will retire by rotation at the Company's AGM and will seek re-election at that meeting. Lucio Lanza also retires by rotation at the AGM but has decided not to seek re-election.

Directors' shareholdings in the Company
The interests of the directors in the Company's ordinary shares of 0.05 pence, all of which were beneficially held, are disclosed in the remuneration report.

Share capital

As at 31 December 2009, ARM's share capital comprised a single class of ordinary shares of 0.05 pence each and there were 1,344,055,696 ordinary shares in issue (2008: 1,344,055,696) of which 60,321,361 ordinary shares were held in treasury (2008: 91,160,488). The rights attached to treasury shares are restricted in accordance with the Companies Acts. The rights attached to ordinary shares are as follows:

1 on a show of hands at a general meeting, every shareholder present in person (or, in the case of a corporation, present at the meeting by way of a representative) and entitled to vote shall have one vote and every proxy present who has been duly appointed by a shareholder entitled to vote on the resolution has one vote;
2 on a poll, every shareholder present in person (or in the case of a corporation, present at the meeting by way of a representative) or by proxy and entitled to vote shall have one vote for every ordinary share held;
3 shareholders are entitled to a dividend where declared or paid out of profits available for such purposes; and
4 shareholders are entitled to participate in a return of capital on a winding-up.

The notice of the AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on ARM's website after the meeting.

There are no restrictions on the transfer of ordinary shares in ARM other than:

- restrictions that may from time to time be imposed by laws and regulations (for example, those relating to market abuse and insider dealing);
- restrictions that may be imposed pursuant to the Listing Rules of the Financial Services Authority under which certain employees of ARM require the approval of the Company to deal in shares;
- restrictions on the transfer of shares that may be imposed under article 61.2 of ARM's articles of association or under Part 22 of the Companies Act 2006, in either case following a failure to supply information required to be disclosed following service of a request under section 793 of the Companies Act 2006; and
- restrictions on transfer of shares held under certain of the Company's employee share plans while they remain subject to the plan.

Substantial shareholdings

The directors are aware of the following substantial interests in the issued share capital of the Company as at 28 March 2010:

	Percentage of issued ordinary share capital
Janus Capital Corporation	12.60%
Thornburg Investment Management	8.00%
Capital Group Companies	5.09%
Threadneedle Asset Management	4.95%
Massachusetts Financial Services	4.37%
Legal and General Investment Management	3.80%

Save for the above, the Company has not been notified, as at 28 March 2010, of any material interest of 3% or more or any non-material interest exceeding 10% of the issued share capital of the Company.

Appointment of directors

ARM shareholders may by ordinary resolution appoint any person to be a director. ARM must have not less than two and no more than 16 directors holding office at all times. ARM may by ordinary resolution from time to time vary the minimum and/or maximum number of directors.

At each AGM, any director who was elected or last re-elected at or before the AGM held in the third calendar year before the then current calendar year must retire by rotation. A retiring director is eligible for re-election unless the directors have agreed otherwise.

The directors may appoint a director to fill a casual vacancy or as an additional director to hold office until the next AGM, who shall then be eligible for election.

Articles of association

ARM's articles of association may be amended only by a special resolution at a general meeting of shareholders.

Directors' authority

The directors are responsible for the management of the business of ARM and may exercise all powers of ARM subject to applicable legislation and regulation and the memorandum and articles of association.

At the 2009 AGM, the directors were given authority to buy back a maximum number of 126,012,000 ordinary shares at a minimum price of 0.05 pence each. The maximum price was an amount equal to 105% of the average of the closing mid market prices of ARM's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary shares are contracted to be purchased. This authority will expire at the earlier of the conclusion of the 2010 AGM or 13 August 2010.

Accordingly, resolution 11 will be proposed as a special resolution at the 2010 AGM to give ARM authority to acquire up to 131,170,000 ordinary shares following expiry of the current authority. The directors will use this authority only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall position of ARM. In particular, this authority will be exercised only if the directors believe that it is in the best interests of shareholders generally and will increase earnings per share.

Resolution 9 to be proposed at the 2010 AGM will authorise the directors generally to allot up to £218,618 in nominal amount of ordinary shares and, in addition, will authorise the directors to allot up to a further £218,618 in nominal amount of ordinary shares in connection with a "rights issue" (as defined in resolution 9). Further, resolution 10 will authorise the directors to allot ordinary shares (or sell treasury shares) for cash (i) otherwise than in connection with a "pre-emptive offer" (as defined in resolution 10) up to an aggregate nominal amount of £33,600, or (ii) in connection with a pre-emptive offer up to an aggregate nominal amount of £218,618, or (iii) in connection with a rights issue up to a further nominal amount of £218,618, in each case as if section 561(1) of the Companies Act 2006 did not apply to such allotment (or sale). The period of authorisation will in each case expire at the earlier of the conclusion of the 2011 AGM or on 30 June 2011.

Qualifying indemnity provision
Article 139 of the Company's articles of association provides for the indemnification of directors of the Company against liability incurred by them in certain situations, and is a "qualifying indemnity provision" within the meaning of Section 236 of the Companies Act 2006. At the 2010 AGM, the Company is proposing to amend this provision to reflect recent changes in legislation. Details of the changes are set out in the Circular and Notice of meeting relating to the 2010 AGM.

Change of control
All of ARM's equity-based plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

There are no significant agreements to which ARM is a party that take effect, alter or terminate upon a change of control.

Disabled persons
The Group has a strong demand for highly qualified staff and disability is not seen to be an inhibitor to employment or career development. In the event of any staff becoming disabled while with the Group, their needs and abilities would be assessed and the Group would, where possible, seek to offer alternative employment to them if they were no longer able to continue in their current role.

Employee involvement
As the Group is an IP enterprise, it is vital that all levels of staff are consulted and involved in its decision-making processes. To this end, internal conferences and communications meetings are held regularly which involve employees from all parts of the Group in discussions on future strategy and developments. Furthermore, employee share ownership is encouraged and all employees are able to participate in one of the Group's schemes to encourage share ownership. The Group has an informal and delegated organisational structure. It does not presently operate any collective agreements with any trade unions.

Information about the Group's employees and policies are contained in the Remuneration Report, the Corporate Responsibility (CR) Report and the Corporate Governance Report. Information about environmental matters, social and community policies and their effectiveness is contained in the CR Report.

Policy on payment of creditors
The Group's policy is to pay suppliers before the end of the month following the month of receipt of the invoice, unless terms have been specifically agreed in advance. This policy and any specific terms agreed with suppliers are made known to the appropriate staff and to suppliers on request. Trade creditors of the Group at 31 December 2009 were equivalent to nine days' purchases for the Group (2008: 25 days) and nil days for the Company (2008: nil).

Financial instruments
The Group's financial risk management and policies and exposure to risks in relation to financial instruments are detailed in note 1c.

Essential contracts
There are no parties with whom the Group has contractual or other arrangements which are essential to the business of the Group.

Annual General Meeting (AGM)
The AGM will be held at 110 Fulbourn Road, Cambridge, CB1 9NJ, UK, on 14 May 2010 at 2.00pm. A presentation will be made at this meeting outlining recent developments in the business. All voting at the meeting will be conducted on a poll where every shareholder present in person or by proxy will have one vote for each share of which they are the owner. The Group will convey the results of the poll on the website after the AGM. Shareholders are invited to submit written questions in advance of the meeting. Questions should be sent to The Company Secretary, ARM Holdings plc, 110 Fulbourn Road, Cambridge CB1 9NJ, UK.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Group will be proposed at the AGM. Details of other resolutions to be proposed at the meeting are set out in the Circular and Notice of AGM 2010 which will be made available to all shareholders together with a proxy card.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the Group and the parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are also required by the Disclosure and Transparency Rules of the Financial Services Authority to include a report containing a fair view of the business and a description of the principal risks and uncertainties facing the Company and the Group. These are set out in the financial review on pages 19 to 23.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the parent company financial statements and the directors' remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors whose names and functions are described in the biographies on pages 26 and 27 confirm that to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRS as adopted by the EU (UK GAAP for the Company), give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the directors' report and the financial review on pages 19 to 23 include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- So far as each director is aware, there is no relevant audit information of which the Group's auditors are unaware.
- Each director has taken all the steps that he or she ought to have taken in his or her duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

By order of the board

Patricia Alsop
Company Secretary
ARM Holdings plc

Company Number: 2548782

Remuneration report

Remuneration committee

Name of director	Position	Meetings attended
Jeremy Scudamore (Chairman)	Senior Independent Director	2/2
Kathleen O'Donovan	Independent non-executive director	1/2
John Scarisbrick	Independent non-executive director	2/2
Young Sohn	Independent non-executive director	2/2

The remuneration committee has responsibility for determining and agreeing with the board, within agreed terms of reference, the Group's policy for the remuneration of the executive directors and the individual remuneration packages for each executive director. This includes basic salary, annual bonus, the level and terms of conditional awards under the Long Term Incentive Plan and the terms of performance conditions that apply to such benefits, pension rights and any compensation payments. Where the remuneration committee considers it appropriate, the committee will make recommendations in relation to the remuneration of senior management. The committee also liaises with the board in relation to the preparation of the board's annual report to shareholders on the Group's policy on the remuneration of executive directors and in particular the directors' remuneration report, as required by the Companies Act 2006, the Combined Code 2008 and the Listing Rules of the Financial Services Authority.

The committee's terms of reference are published on the company's website at www.arm.com. Given their diverse experience, the four independent non-executive directors who make up the committee are able to offer a balanced view and international expertise in relation to remuneration issues for the Group. The committee has access to professional advice from external advisers (generally appointed by Bill Parsons, the EVP, Human Resources) in the furtherance of its duties and makes use of such advice. During 2009, KPMG provided general advice on remuneration and benefits, including tax advice for employees who are seconded overseas and they also worked on royalty audits. Linklaters provided legal services in relation to equity plans and corporate matters. Monks provided salary survey data. Deloitte provided salary survey data, royalty audit services and tax training. Kepler Associates provided independent verification of TSR calculations for the Long Term Incentive Plan. The EVP, Human Resources also provided advice to the committee and to the Group. Monks is an associate of the Group's external auditor and these services were approved by the audit committee in accordance with the procedure described in the Corporate Governance report. The Chief Executive Officer and the EVP, Human Resources, normally attend for part of remuneration committee meetings. No director is involved in deciding his or her own remuneration.

Remuneration policy

The remuneration committee, in its deliberations on remuneration policy for the Group's executive directors, seeks to give full consideration to the principles set out in the Combined Code. The committee is able to consider corporate performance on environmental, social and corporate governance issues when setting the remuneration of executive directors. The committee also monitors developments in accounting for equity-based remuneration on an ongoing basis.

The Group operates a remuneration policy and framework for executive directors designed to ensure that it attracts and retains the high quality management skills necessary to achieve a high level of corporate performance, in line with the best interests of shareholders. This policy seeks to provide rewards and incentives for the remuneration of executive directors that reflect their performance and align with the objectives of the Group. These comprise a mix of performance-related and non-performance-related remuneration. The committee believes that a director's total remuneration should seek to recognise his worth in the external market and, to this end, operates a policy of paying base salaries which are in line with the market median, as part of a total remuneration package which is upper quartile. The committee believes that this is justified, recognising that more than 50% of total potential remuneration is performance-related. The committee obtains information about the external market from various independently published remuneration surveys and is committed to benchmarking the total remuneration package.

However, recognising the prevailing market conditions and the uncertainty over when the global economy would start to improve, the board implemented a pay freeze across the Group for the whole of 2009. The nature of the Group's development has meant that there has been a good deal of focus on the attainment of short-term objectives with a high level of variable remuneration. Since 2007, variable remuneration has consisted of two performance-related elements: annual bonus and a conditional award under the Long Term Incentive Plan.

A shareholding guideline is in place for executive directors and certain senior managers, who are required to build up a holding of shares in the Company over a period of five years. The shareholdings may include shares received through earlier grants under the Company's share option schemes and/or the Long Term Incentive Plan and/or the Deferred Annual Bonus Plan and, in the case of executive directors and members of the executive committee, the required holding is 100% of basic salary.

Incentive arrangements

The remuneration committee aims to ensure that individuals are fairly rewarded for their contribution to the success of the Group. There are four key incentive schemes in operation within the Group. These are the Deferred Annual Bonus (DAB) and Long Term Incentive (LTIP) Plans for executive directors and senior managers and the Employee Equity and Annual Bonus Plans for all other employees. These plans provide alignment between remuneration and the financial performance of the Group and strengthen retention of key employees through deferment of bonus. Option grants to executive directors ceased in 2006 (although the facility to grant options exists in exceptional circumstances) and the move away from options to restricted shares for all employees, reduces potential dilution and has simplified remuneration arrangements.

Deferred Annual Bonus Plan
There is a strong variable element to executive directors' remuneration and a bonus of up to a maximum of 125% of base salary (after application of a personal performance multiplier which flexes the payment by 0.75 to 1.25) can be earned through the DAB if all targets are met. The personal performance multiplier depends on the achievement of pre-determined objectives which are reviewed and approved by the committee each year. These include key strategic objectives related to each director's role and responsibilities including compliance with the Management Charter which is designed to foster employee development, understanding of the overall vision and strategy of the Group and good governance. There is compulsory deferral into shares of 50% of the bonus earned and an opportunity to earn an equity match of up to 2:1, subject to achievement of an EPS performance condition. Deferred shares and any matching shares earned will normally be transferred three years from the date of award.

Payment of the bonus for 2009 was subject to the achievement of US dollar revenue and normalised operating profit targets set by the remuneration committee, which were directly related to the Group's financial results. The bonuses payable to executive directors in respect of performance during 2009 are shown later in this report and are in the range 83.3% to 84.7% of base salary, 50% of which was compulsorily deferred into shares. For 2009, 30% of bonus was dependent on achieving a US dollar revenue target and 70% on achieving a normalised operating profit target. This change from the 50% revenue and 50% normalised operating profit targets that had applied in earlier years reflected the committee's view that predicting and controlling revenue during the recession would be very difficult and maximising profitability through cost control was vital to achieve the best possible financial performance for the Group.

Shares representing the deferred element of bonus earned in 2006 and awarded in 2007 vested in February 2010, with no matching shares being triggered.

For 2010, the committee has decided that 50% of bonus will be dependent on achieving a US dollar revenue target and 50% on achieving a normalised operating profit target, which the committee believes have been set at challenging but motivational levels. At EPS growth equal to the increase in the Consumer Prices Index (CPI) plus 4% per annum, the deferred shares will be matched on a 0.3:1 basis, rising to 2:1 when EPS growth is in excess of CPI plus 12% per annum. These targets are directly related to the Group's financial results and encourage achievement of the Group's short-term financial goals, while the deferral and matching elements encourage a longer term view of the success of the Group. The deferred shares can be forfeited in the event of gross misconduct and the matching shares are subject to forfeiture for "bad leavers".

Long Term Incentive Plan
Annual grants to executive directors are normally made at a level equivalent to base salary. Conditional awards vest to the extent that the performance criteria are satisfied over a three-year performance period from 1 January of the year of award and no re-testing thereafter is possible. The performance conditions are based on the Company's Total Shareholder Return (TSR) when measured against that of two comparator groups (each testing half of the shares comprised in the award). The first index comprises UK companies across all sectors (FTSE 350) and the second comprises predominantly US companies within the hi tech sector (FTSE Global Technology Index). The performance criteria provide the link to performance against an appropriate peer group. For each comparator group, the number of shares that may vest may be up to a maximum of 200% of the relevant half of the shares comprised in the conditional award if the Company's TSR ranks in the upper decile, 50% of the relevant half of the shares will vest in the event of median performance and between median and upper decile performance vesting will increase on a straight-line basis. Additional shares may vest to cover dividends paid by the Company during the performance period. No shares will be received for below-median performance. In addition, no shares will vest unless the committee is satisfied that there has been a sustained improvement in the underlying financial performance of the Company.

Former share option schemes
The option grants to executive directors made up to 2006 remain available for exercise and vesting in accordance with the rules of the relevant schemes. They are subject to performance conditions based on real EPS growth and vest after seven years, but may vest after three years from grant to the extent that the performance conditions are satisfied. Any options issued to executive directors prior to their appointment to the board are not subject to performance conditions. The performance conditions relating to these remaining option grants are set out in more detail in the table later in this report.

Pensions
The Group does not operate its own pension scheme but makes payments into a Group personal pension plan, which is a money purchase scheme. For executive directors, the normal rate of Group contribution is 10% of the executive's basic salary plus additional amounts in accordance with the Group's salary sacrifice scheme. Full details of Group contributions are set out in the directors' emoluments table later in this report.

Service agreements

Executive directors have service contracts that may be terminated by either party on one year's notice. These agreements provide for each of the directors to provide services to the Group on a full-time basis and contain restrictive covenants for periods of three to six months following termination of employment relating to non-competition, non-solicitation of the Group's customers, non-dealing with customers and non-solicitation of the Group's suppliers and employees. In addition, each service contract contains an express obligation of confidentiality in respect of the Group's trade secrets and confidential information and provides for the Group to own any intellectual property rights created by the directors in the course of their employment.

The dates of the service contracts of each person who served as an executive director during the financial year are as follows:

Director	Date
Warren East	29 January 2001
Tim Score	1 March 2002
Tudor Brown	3 April 1996
Mike Inglis	17 July 2002
Mike Muller	31 January 1996
Simon Segars	4 January 2005

Where notice is served to terminate the appointment, whether by the Group or the executive director, the Group in its absolute discretion is entitled to terminate the appointment by paying to the executive director his salary in lieu of any required period of notice.

Non-executive directors

During 2009, the Chairman of the Audit Committee and the Chairman of the Remuneration Committee who is also the Senior Independent Director each received a total fee of £45,000 per annum and the other non-executive directors each received a total fee of £40,000 per annum, which were unchanged from 2008 due to the Group-wide pay freeze. These fees were arrived at by reference to fees paid by other companies of similar size and complexity, and reflected the amount of time non-executive directors were expected to devote to the Group's activities during the year. The remuneration of the non-executive directors is set by the executive directors and the term of appointment is three years. Fees paid to non-executive directors are reviewed annually with effect from 1 January.

Non-executive directors do not have service contracts, are not eligible to participate in bonus or share incentive arrangements and their service does not qualify for pension purposes or other benefits. No element of their fees is performance-related. Share options exercised during the year by Lucio Lanza were granted prior to the Group's acquisition of Artisan.

Performance graphs

A performance graph showing the Company's total shareholder return (TSR) together with the TSR for the FTSE All-World Technology Index from 31 December 2004 is shown below. The TSR has been calculated in accordance with the Directors' Remuneration Report Regulations 2002.

The TSR for the Company's shares was 71.0% over this period compared with 45.5% for the FTSE All-World Technology Index for the same period.

ARM total shareholder return performance from 31 December 2004 to 31 December 2009

The directors consider the FTSE All-World Technology Index to be an appropriate choice as the Index contains companies from the US, Asia and Europe and therefore reflects the global environment in which the Group operates. In addition, the Index includes many companies that are currently the Group's customers, as well as companies which use ARM technology in their end products.

Directors' shareholdings in the Company

The directors' beneficial interests in the Company's ordinary shares of 0.05 pence, which exclude interests under its share option schemes, Long Term Incentive Plan and Deferred Annual Bonus Plan, are set out below.

Director	At date of report Number	31 December 2009 Number	31 December 2008 Number
Warren East	1,050,000	754,641	747,561
Tim Score	481,847	330,378	372,164
Tudor Brown	1,317,462	1,817,422	1,769,097
Mike Inglis	307,205	267,258	227,295
Mike Muller	2,259,145	2,014,098	1,972,980
Simon Segars	264,504	263,413	225,124
Doug Dunn	48,000	48,000	48,000
Lucio Lanza	1,277,291	1,277,291	1,277,291
Kathleen O'Donovan	–	–	–
Philip Rowley	50,000	50,000	50,000
John Scarisbrick	10,800	10,800	10,800
Jeremy Scudamore	125,000	125,000	125,000
Young Sohn	159,000	159,000	159,000

In addition to the interests disclosed above, the executive directors have interests in dividend shares that could be awarded under the Long Term Incentive Plan and the Deferred Annual Bonus Plan, the amount of which will depend on the extent to which the performance criteria are satisfied and the dividends declared during the performance period. Changes in directors' interests in the Company's shares that have taken place in the period from 31 December 2009 to the date of approval of the remuneration report are shown above.

Auditable information

The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by the Companies Act 2006.

Interests in share options

Details of discretionary options beneficially held by directors are set out below:

Director	As at 1 January 2009 Number	Granted Number	Exercised Number	Lapsed Number	As at 31 December 2009 Number	Exercise price £	Earliest date of exercise	Expiry date
Warren East	8,480	–	–	(8,480)	–	1.224	11/03/02	10/03/09*
	3,187	–	–	–	3,187	6.155	22/05/03	21/05/10*
	100,000	–	–	(100,000)	–	2.465	19/04/05	19/04/09**
	400,000	–	–	–	400,000	1.25	30/01/07	30/01/11**
	592,417	–	–	–	592,417	1.055	04/02/08	04/02/12**
	573,585	–	–	–	573,585	1.325	01/02/09	01/02/13**
	1,677,669	**–**	**–**	**(108,480)**	**1,569,189**			
Tim Score	206,896	–	–	(206,896)	–	2.465	19/04/05	19/04/09**
	320,000	–	–	–	320,000	1.25	30/01/07	30/01/11**
	473,934	–	–	–	473,934	1.055	04/02/08	04/02/12**
	483,019	–	–	–	483,019	1.325	01/02/09	01/02/13**
	1,483,849	**–**	**–**	**(206,896)**	**1,276,953**			
Tudor Brown	3,736	–	–	–	3,736	6.155	22/05/03	21/05/10*
	2,091	–	–	–	2,091	3.35	14/05/04	13/05/11*
	50,000	–	–	(50,000)	–	2.465	19/04/05	19/04/09**
	731,428	–	(731,428)	–	–	0.4375	30/01/06	30/01/10**
	320,000	–	–	–	320,000	1.25	30/01/07	30/01/11**
	436,019	–	–	–	436,019	1.055	04/02/08	04/02/12**
	392,453	–	–	–	392,453	1.325	01/02/09	01/02/13**
	1,935,727	**–**	**(731,428)**	**(50,000)**	**1,154,299**			
Mike Inglis	223,515	–	–	(223,515)	–	2.1475	27/05/03	26/05/09†
	288,000	–	–	–	288,000	1.25	30/01/07	30/01/11**
	379,147	–	–	–	379,147	1.055	04/02/08	04/02/12**
	339,623	–	–	–	339,623	1.325	01/02/09	01/02/13**
	1,230,285	**–**	**–**	**(223,515)**	**1,006,770**			
Mike Muller	3,736	–	–	–	3,736	6.155	22/05/03	21/05/10*
	2,091	–	–	–	2,091	3.35	14/05/04	13/05/11*
	50,000	–	–	(50,000)	–	2.465	19/04/05	19/04/09**
	288,000	–	–	–	288,000	1.25	30/01/07	30/01/11**
	398,104	–	–	–	398,104	1.055	04/02/08	04/02/12**
	339,623	–	–	–	339,623	1.325	01/02/09	01/02/13**
	1,081,554	**–**	**–**	**(50,000)**	**1,031,554**			
Simon Segars	6,792	–	–	–	6,792	3.35	14/05/04	13/05/11*
	40,000	–	–	(40,000)	–	2.465	19/04/03	18/04/09†
	105,142	–	(105,142)	–	–	0.4375	30/01/04	29/01/10†
	224,000	–	–	–	224,000	1.25	30/01/05	29/01/11†
	341,232	–	–	–	341,232	1.055	04/02/08	04/02/12**
	316,981	–	–	–	316,981	1.325	01/02/09	01/02/13**
	1,034,147	**–**	**(105,142)**	**(40,000)**	**889,005**			
Lucio Lanza	89,912	–	(89,912)	–	–	0.57	17/03/00	16/02/10
	7,498	–	(7,498)	–	–	0.22	16/05/01	15/04/11
	26,236	–	(26,236)	–	–	0.44	07/03/02	06/02/12
	177,615	–	(177,615)	–	–	0.66	11/04/04	10/03/14
	301,261	**–**	**(301,261)**	**–**	**–**			

* Denotes share options issued under the Group's Approved Share Option Scheme.

** Denotes share options issued under the Group's Unapproved Share Option Scheme with performance conditions attached.

† Denotes share options issued under the Group's Unapproved Share Option Scheme which are exercisable as follows: 25% maximum from first anniversary, 50% maximum from second anniversary, 75% maximum from third anniversary, 100% maximum on fourth anniversary.

For options granted before January 2003, the performance condition is that the Group must achieve average real EPS growth of at least 33.1% over a performance period of three years from the start of the financial year in which the options were granted (the "performance period").

For options granted in 2003 and 2004 the performance conditions requiring average real EPS growth of at least 33.1% were satisfied and 100% of the options vested on 1 February 2006 and 8 February 2007 respectively. For options granted in 2005 the performance conditions were satisfied to the extent that 89.44% of the options vested on 8 February 2008 and the balance will vest seven years from the date of grant.

For the final grant of options in 2006 the performance conditions were satisfied to the extent that 76.2% of the options vested on 8 February 2009 and the balance will vest seven years from the date of grant. The performance condition was that 50% of the shares under option would vest after three years if the Group achieved average real EPS growth of 12.5% over the performance period. If average real EPS growth of at least 33.1% had been achieved over the performance period, 100% of the shares under option would have vested after three years. For average real EPS growth of between 12.5% and 33.1% over the performance period, the number of shares vested after three years increased on a straight-line basis.

Details of options held by directors under the Group's Save As You Earn option schemes are set out below:

Director	As at 1 January 2009 Number	Granted Number	Exercised Number	As at 31 December 2009 Number	Exercise price £	Earliest date of exercise	Expiry date
Warren East	8,559	–	–	8,559	1.104	01/09/10	28/02/11
Tudor Brown	8,559	–	–	8,559	1.104	01/09/10	28/02/11
Tim Score	–	18,208	–	18,208	0.854	01/08/14	31/01/15
Mike Inglis	–	10,626	–	10,626	0.854	01/08/12	31/01/13
Mike Inglis	9,109	–	(9,109)	–	1.0264	01/08/09	31/01/10

Options issued under this scheme are issued at a 20% discount to market value.

Details of options exercised by directors during the year are as follows:

Director	Number of shares	Exercise price £	Market price on date of exercise £	Gains on exercise £
Mike Inglis	9,109	1.0264	1.2742	2,257
Tudor Brown	214,627	0.4375	1.3012	185,365
Tudor Brown	516,801	0.4375	1.3004	445,949
Simon Segars	105,142	0.4375	1.4792	109,525
Lucio Lanza	89,912	0.57	1.3772	72,576
Lucio Lanza	7,498	0.22	1.3772	8,677
Lucio Lanza	26,236	0.44	1.3772	24,588
Lucio Lanza	177,615	0.66	1.3772	127,383

Details of options exercised by directors after the year end are as follows:

Director	Number of shares	Exercise price £	Market price on date of exercise £	Gains on exercise £
Warren East	400,000	1.25	1.9848	293,900
Warren East	296,000	1.055	1.9828	274,638
Tim Score	423,887	1.055	1.9807	392,410
Tim Score	320,000	1.25	1.9884	236,276
Tudor Brown	320,000	1.25	2.0222	247,096
Tudor Brown	389,975	1.055	2.0153	374,474
Tudor Brown	299,049	1.325	2.0162	206,707
Mike Inglis	288,000	1.25	2.0055	217,593
Mike Inglis	339,109	1.055	2.0062	322,546
Mike Inglis	258,793	1.325	2.0040	175,721
Mike Muller	288,000	1.25	2.0238	222,864
Mike Muller	356,064	1.055	2.0131	341,148
Mike Muller	258,793	1.325	2.0131	178,078
Simon Segars	224,000	1.25	1.9510	157,024
Simon Segars	305,198	1.055	1.9453	271,706
Simon Segars	241,540	1.325	1.9446	149,664

Long Term Incentive Plan

A Long Term Incentive Plan was approved by shareholders at the 2003 AGM. Conditional share awards held by directors are as follows:

Director	Performance period ending 31 December	Award date	Market price at date of award £	As at 1 January 2008 Number	Conditional award Number	Vested* Number	Lapsed Number	As at 31 December 2009 Number	Vesting date
Warren East	2008	8 May 2006	1.365	278,388	–	(108,292)	(170,096)	–	February 2009
	2009	8 February 2007	1.28	308,594	–	–	–	308,594	February 2010**
	2010	8 February 2008	0.93	446,237	–	–	–	446,237	February 2011
	2011	8 February 2009	0.9975	–	416,040	–	–	416,040	February 2012
				1,033,219	**416,040**	**(108,292)**	**(170,096)**	**1,170,871**	
Tim Score	2008	8 May 2006	1.365	234,432	–	(91,194)	(143,238)	–	February 2009
	2009	8 February 2007	1.28	261,719	–	–	–	261,719	February 2010**
	2010	8 February 2008	0.93	387,097	–	–	–	387,097	February 2011
	2011	8 February 2009	0.9975	–	360,902	–	–	360,902	February 2012
				883,248	**360,902**	**(91,194)**	**(143,238)**	**1,009,718**	
Tudor Brown	2008	8 May 2006	1.365	190,476	–	(74,095)	(116,381)	–	February 2009
	2009	8 February 2007	1.28	214,844	–	–	–	214,844	February 2010**
	2010	8 February 2008	0.93	306,452	–	–	–	306,452	February 2011
	2011	8 February 2009	0.9975	–	214,286	–	–	214,286	February 2012
				711,772	**214,286**	**(74,095)**	**(116,381)**	**735,582**	
Mike Inglis	2008	8 May 2006	1.365	164,835	–	(64,120)	(100,715)	–	February 2009
	2009	8 February 2007	1.28	187,500	–	–	–	187,500	February 2010**
	2010	8 February 2008	0.93	268,817	–	–	–	268,817	February 2011
	2011	8 February 2009	0.9975	–	250,627	–	–	250,627	February 2012
				621,152	**250,627**	**(64,120)**	**(100,715)**	**706,944**	
Mike Muller	2008	8 May 2006	1.365	164,835	–	(64,120)	(100,715)	–	February 2009
	2009	8 February 2007	1.28	183,594	–	–	–	183,594	February 2010**
	2010	8 February 2008	0.93	263,441	–	–	–	263,441	February 2011
	2011	8 February 2009	0.9975	–	245,614	–	–	245,614	February 2012
				611,870	**245,614**	**(64,120)**	**(100,715)**	**692,649**	
Simon Segars	2008	8 May 2006	1.365	153,846	–	(59,846)	(94,000)	–	February 2009
	2009	8 February 2007	1.28	179,688	–	–	–	179,688	February 2010**
	2010	8 February 2008	0.93	268,817	–	–	–	268,817	February 2011
	2011	8 February 2009	0.9975	–	250,627	–	–	250,627	February 2012
				602,351	**250,627**	**(59,846)**	**(94,000)**	**699,132**	

* The performance conditions applicable to the 2006 conditional awards were satisfied to the extent of 38.9% plus dividend shares.

** The performance conditions applicable to the 2007 conditional awards were satisfied to the extent of 181.6% plus dividend shares.

As detailed in the 2008 annual report the performance conditions applicable to the conditional awards granted on 8 May 2006 were satisfied to the extent of 38.9% plus dividend shares which vested on 8 February 2009, as follows:

Director	Conditional award Number	Vested award Number	Dividend shares Number	Total award Number	Market value at vesting £
Warren East	278,388	108,292	3,988	112,280	111,999
Tim Score	234,432	91,194	3,358	94,552	94,316
Tudor Brown	190,476	74,095	2,728	76,823	76,631
Mike Inglis	164,835	64,120	2,361	66,481	66,315
Mike Muller	164,835	64,120	2,361	66,481	66,315
Simon Segars	153,846	59,846	2,203	62,049	61,894
Total	**1,186,812**	**461,667**	**16,999**	**478,666**	**477,470**

The performance conditions applicable to the conditional awards granted on 8 February 2007 were satisfied to the extent of 181.6% plus dividend shares which vested on 8 February 2010, as follows:

Director	Conditional award Number	Vested award Number	Dividend shares Number	Total award Number	Market value at vesting £
Warren East	308,594	560,406	28,455	588,861	1,185,613
Tim Score	261,719	475,281	24,133	499,414	1,005,520
Tudor Brown	214,844	390,156	19,810	409,966	825,426
Mike Inglis	187,500	340,500	17,288	357,788	720,370
Mike Muller	183,594	333,406	16,929	350,335	705,364
Simon Segars	179,688	326,313	16,568	342,881	690,357
Total	**1,335,939**	**2,426,062**	**123,183**	**2,549,245**	**5,132,650**

The following conditional awards over ordinary shares were made under the LTIP on 8 February 2010: Warren East 209,756; Tim Score 180,487; Tudor Brown 106,341; Mike Inglis 126,829; Mike Muller 124,390 and Simon Segars 125,853. The mid-market closing price of an ordinary share on 5 February 2010, being the business day prior to the date of these conditional awards, was 205 pence.

Deferred annual bonus plan

As described above, there is a compulsory deferral of 50% of the annual bonus earned by executive directors in the year. The emoluments detailed below include the full bonus earned for 2009, though only half has been settled in cash and the deferred elements will be settled in shares after three years. The following awards were made on 8 February 2010 in respect of the deferred proportion of the 2009 bonus: Warren East 85,024; Tim Score 74,370; Tudor Brown 43,427; Mike Inglis 51,219; Mike Muller 50,195 and Simon Segars 51,006.

The following dividend shares were received on 8 February 2010 with respect to the share related element of the 2006 bonus: Warren East 5,524; Tim Score 4,652; Tudor Brown 3,779; Mike Inglis 3,271; Mike Muller 3,140; Simon Segars 2,930.

The total number of awards under the deferred annual bonus plan held by the directors following the 2010 grant is: Warren East 310,455; Tim Score 271,394; Tudor Brown 184,327; Mike Inglis 188,531; Mike Muller 183,655 and Simon Segars 187,280.

Except as described above, there have been no changes in directors' interests under the Group's equity schemes since the end of the 2009 financial year up to the date of approval of the remuneration report.

The Company's register of directors' interests contains full details of directors' shareholdings and options to subscribe and conditional awards under the LTIP.

Share prices

The market value of the shares of the Company as at 31 December 2009 was 177.5 pence. The closing mid-price ranged from 81.25 pence to 178.4 pence during the year.

Directors' emoluments

The emoluments of the executive directors of the Group in respect of services to the Group were paid through its wholly-owned subsidiary, ARM Limited, as were the non-executive directors with the exception of Lucio Lanza and Young Sohn who were paid through ARM Inc., and were as follows:

Director	Fees £	Basic salary £	Benefits* £	Bonus payments** £	Subtotal £	Pension contrib-utions £	Total 2009 £	Subtotal 2008 £	Pension contrib-utions 2008 £	Total 2008 £
Executive										
Warren East	–	415,000	14,891	348,600	778,491	46,480	824,971	715,919	45,235	761,154
Tim Score	–	360,000	23,387	304,920	688,307	37,800	726,107	634,284	37,350	671,634
Tudor Brown	–	213,750	11,391	178,054	403,195	32,735	435,930	434,203	26,719	460,922
Mike Inglis	–	250,000	14,574	210,000	474,574	27,500	502,074	440,981	26,875	467,856
Mike Muller	–	245,000	14,891	206,800	466,691	31,172	497,863	430,557	30,877	461,434
Simon Segars	–	250,000	161,223	209,125	620,348	27,500	647,848	535,833	26,875	562,708
Total	–	1,733,750	240,357	1,457,499	3,431,606	203,187	3,634,793	3,191,777	193,931	3,385,708
Non-executive										
Doug Dunn	160,000	–	–	–	160,000	–	160,000	160,000	–	160,000
Lucio Lanza	40,000	–	–	–	40,000	–	40,000	40,000	–	40,000
Kathleen O'Donovan	40,000	–	–	–	40,000	–	40,000	40,000	–	40,000
Philip Rowley	45,000	–	–	–	45,000	–	45,000	45,000	–	45,000
John Scarisbrick	40,000	–	–	–	40,000	–	40,000	40,000	–	40,000
Jeremy Scudamore	45,000	–	–	–	45,000	–	45,000	45,000	–	45,000
Young Sohn	40,000	–	–	–	40,000	–	40,000	40,000	–	40,000
Total	410,000	–	–	–	410,000	–	410,000	410,000	–	410,000
Total	**410,000**	**1,733,750**	**240,357**	**1,457,499**	**3,841,606**	**203,187**	**4,044,793**	**3,601,777**	**193,931**	**3,795,708**

* All the executive directors receive family healthcare and annual travel insurance as part of their benefits in kind. In addition, Tim Score has the use of a Company car and Warren East, Tudor Brown, Mike Inglis and Mike Muller receive a car and petrol allowance. Simon Segars receives living, transportation and other allowances as part of his placement in the US.

** The bonus payments above represent the full bonus earned during 2009. According to the terms of the DAB, 50% of this bonus is not paid in cash, but is deferred and becomes payable in shares after three years. Details of the awards made in February 2010 in respect of these deferrals are detailed above.

Warren East is the highest paid employee in the Company. It is the Company's policy to allow executive directors to hold non-executive positions at other companies and to receive remuneration for their services. The board believes that experience of the operations of other companies and their boards and committees is valuable to the development of the executive directors.

The following information is not audited.

Details of executive directors' roles within other companies and their remuneration are as follows:

Warren East is a non-executive director of Reciva Limited and of De La Rue plc. The Group holds 0.45% of the issued share capital of Reciva Limited and more details about this investment are included in note 13. In relation to Reciva Limited he was awarded options over 25,464 shares during 2009 which vested at the rate of 2,122 shares per month at an option price of £2.12 per share and received no other remuneration. In relation to De La Rue plc he received remuneration totalling £45,250 up to 31 December 2009 (2008: £39,375).

Tudor Brown is a non-executive director of ANT plc. In this capacity he received remuneration totalling £25,625 up to 31 December 2009 (2008: £22,500). Mike Inglis is a non-executive director of Pace plc and in this capacity he received remuneration totalling £33,000 up to 31 December 2009 (2008: £14,383 from Pace plc following his appointment on 25 July 2008 and £9,587 from Superscape plc up to his resignation on 3 March 2008). Tim Score is a non-executive director and was interim chairman of National Express Group plc for Q1 2009. In this capacity he received remuneration totalling £72,000 up to 31 December 2009 (2008: £58,101). Simon Segars is a non-executive director of Plastic Logic Limited and in this capacity he received remuneration totalling £15,000 (2008: £15,000) and was granted options over 197,603 Plastic Logic shares during the year to 31 December 2009 at a price of 6.5 cents per share which vest over four years at the rate of 25% on each anniversary of the date of grant.

All the executive directors are accruing benefits under a money purchase pension scheme as a result of their services to the Group, contributions for which were all paid during the year.

Jeremy Scudamore
Chairman of the Remuneration Committee

Independent auditors' report to the members of ARM Holdings plc

We have audited the Group financial statements of ARM Holdings plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities included in the directors' report, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement in the directors' report in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of ARM Holdings plc for the year ended 31 December 2009 and on the information in the directors' remuneration report that is described as having been audited.

J. S. Southgate

James Southgate (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
30 March 2010

Contents

Consolidated income statement
For the year ended 31 December

	Note	2009 £000	2008 £000
Revenues			
Product revenues		286,834	282,382
Service revenues		18,188	16,552
Total revenues	2	305,022	298,934
Cost of revenues			
Product costs		(16,645)	(24,539)
Service costs		(8,826)	(8,339)
Total cost of revenues		(25,471)	(32,878)
Gross profit		279,551	266,056
Operating expenses			
Research and development		(112,215)	(87,588)
Sales and marketing		(61,723)	(57,448)
General and administrative		(59,999)	(61,077)
Total operating expenses, net		(233,937)	(206,113)
Profit from operations		45,614	59,943
Investment income		1,788	3,297
Interest payable		(143)	(51)
Profit before tax	2, 5	47,259	63,189
Tax	6	(6,820)	(19,597)
Profit for the year	2	**40,439**	**43,592**
Earnings per share			
Basic and diluted earnings		**40,439**	**43,592**
Number of shares ('000)			
Basic weighted average number of shares		1,266,624	1,265,237
Effect of dilutive securities: Employee incentive schemes		34,026	21,176
Diluted weighted average number of shares		**1,300,650**	**1,286,413**
Basic EPS	8	3.2p	3.4p
Diluted EPS	8	3.1p	3.4p

All activities relate to continuing operations. All the profit for the year is attributable to the equity holders of the parent. The Company has opted to present its own accounts under UK GAAP as shown on pages 100 to 107. The accompanying notes are an integral part of the financial statements.

Details of dividends paid and proposed are in notes 7 and 27 of the financial statements respectively.

Consolidated statement of comprehensive income
For the year ended 31 December

	2009 £000	2008 £000
Profit for the year	**40,439**	43,592
Other comprehensive income:		
Realised gain on available-for-sale investment (net of tax of £84,000)	–	214
Unrealised holding gain on available-for-sale investments (net of tax of £nil)	**130**	(285)
Currency translation adjustment	**(61,718)**	164,369
Other comprehensive (loss)/income for the year	**(61,588)**	164,298
Total comprehensive (loss)/income for the year	**(21,149)**	**207,890**

Consolidated balance sheet
As at 31 December

	Note	2009 £000	2008 £000
Assets			
Current assets:			
Financial assets: Cash and cash equivalents	9, 18	34,489	76,502
Short-term investments	13, 18	105,524	471
Short-term marketable securities	13, 18	1,795	1,816
Embedded derivatives	18	2,480	12,298
Fair value of currency exchange contracts	18	457	–
Accounts receivable	10	65,247	76,914
Prepaid expenses and other assets	11	23,635	23,134
Current tax assets		350	621
Inventories: Finished goods	12	1,680	1,972
Total current assets		235,657	193,728
Non-current assets:			
Financial assets: Available-for-sale investments	13, 18	9,432	1,167
Prepaid expenses and other assets	11	1,611	2,102
Property, plant and equipment	14	13,565	14,197
Goodwill	15	516,798	567,844
Other intangible assets	16	24,696	45,082
Deferred tax assets	6	42,724	24,063
Total non-current assets		608,826	654,455
Total assets		**844,483**	**848,183**
Liabilities and shareholders' equity			
Current liabilities:			
Financial liabilities: Accounts payable	18	2,280	6,953
Fair value of currency exchange contracts	18	–	18,457
Accrued and other liabilities	17,18	46,688	35,646
Current tax liabilities		16,536	15,655
Deferred revenue		39,562	29,906
Total current liabilities		105,066	106,617
Non-current liabilities:			
Deferred tax liabilities	6	720	1,223
Total liabilities		**105,786**	**107,840**
Net assets		**738,697**	**740,343**
Capital and reserves attributable to equity holders of the Company			
Share capital	19	672	672
Share premium account		351,578	351,578
Share option reserve		61,474	61,474
Retained earnings		241,950	182,008
Revaluation reserve		(155)	(285)
Cumulative translation adjustment		83,178	144,896
Total equity		**738,697**	**740,343**

The accompanying notes are an integral part of the financial statements. The financial statements on pages 56 to 99 were approved by the board of directors on 30 March 2010 and were signed on its behalf by:

Doug Dunn, Chairman

Consolidated cash flow statement
For the year ended 31 December

	Note	2009 £000	2008 £000
Operating activities			
Profit from operations		45,614	59,943
Adjustments for:			
Depreciation and amortisation of tangible and intangible assets		24,953	26,952
Loss on disposal of property, plant and equipment		79	36
Compensation charge in respect of share-based payments		19,001	15,409
Impairment of available-for-sale investments		412	–
Profit on disposal of available-for-sale investments		(224)	–
Provision for doubtful debts		1,018	641
Provision for obsolescence of inventories		211	87
Movement in fair value of currency exchange contracts		(18,914)	17,961
Movement in fair value of embedded derivatives		9,818	(12,518)
Changes in working capital			
Accounts receivable		9,531	(6,364)
Inventories		81	280
Prepaid expenses and other assets		358	(8,915)
Accounts payable		(4,673)	4,661
Deferred revenue		10,281	1,548
Accrued and other liabilities		14,564	6,831
Cash generated by operations before tax		112,110	106,552
Income taxes paid		(15,550)	(6,019)
Net cash from operating activities		96,560	100,533
Investing activities			
Interest received		1,277	3,234
Purchases of property, plant and equipment	14	(6,030)	(8,084)
Purchases of other intangible assets		(3,888)	(5,938)
Purchases of available-for-sale investments	13	(9,116)	(1,029)
Proceeds on disposal of available-for-sale investments		663	6,291
Proceeds on disposal of property, plant and equipment		49	–
Purchase of short-term investments		(104,902)	(758)
Purchase of subsidiaries, net of cash acquired*		(563)	(7,371)
Net cash used in investing activities		(122,510)	(13,655)
Financing activities			
Proceeds received on issuance of shares from treasury		19,085	5,581
Purchase of own shares	20	–	(40,286)
Dividends paid to shareholders	7	(28,961)	(26,383)
Net cash used in financing activities		(9,876)	(61,088)
Net (decrease)/increase in cash and cash equivalents		(35,826)	25,790
Cash and cash equivalents at beginning of the year		76,502	49,509
Effect of foreign exchange rate changes		(6,187)	1,203
Cash and cash equivalents at end of the year	9	**34,489**	**76,502**

* The aggregate cash outflow for purchase of subsidiaries in 2009 was £563,000 (2008: £7,387,000) and net cash acquired was £nil (2008: £16,000).

The accompanying notes are an integral part of the financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December

	Attributable to equity holders of the Company						
	Share capital £000	Share premium account £000	Share option reserve £000	Retained earnings* £000	Revaluation reserve** £000	Cumulative translation adjustment £000	Total £000
Balance at 31 December 2007	**672**	**351,578**	**61,474**	**185,125**	**(214)**	**(19,473)**	**579,162**
Profit for the year	–	–	–	43,592	–	–	43,592
Other comprehensive income:							
Realised gain on available-for-sale investment	–	–	–	–	214	–	214
Unrealised holding loss on available-for-sale investments	–	–	–	–	(285)	–	(285)
Currency translation adjustment	–	–	–	–	–	164,369	164,369
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**43,592**	**(71)**	**164,369**	**207,890**
Dividends	–	–	–	(26,383)	–	–	(26,383)
Credit in respect of employee share schemes	–	–	–	15,409	–	–	15,409
Movement on tax arising on share options	–	–	–	(1,030)	–	–	(1,030)
Purchase of own shares	–	–	–	(40,286)	–	–	(40,286)
Proceeds from sale of own shares	–	–	–	5,581	–	–	5,581
	–	–	–	(46,709)	–	–	(46,709)
Balance at 31 December 2008	**672**	**351,578**	**61,474**	**182,008**	**(285)**	**144,896**	**740,343**
Profit for the year	–	–	–	40,439	–	–	40,439
Other comprehensive income:							
Unrealised holding gain on available-for-sale investments	–	–	–	–	130	–	130
Currency translation adjustment	–	–	–	–	–	(61,718)	(61,718)
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**40,439**	**130**	**(61,718)**	**(21,149)**
Dividends	–	–	–	(28,961)	–	–	(28,961)
Credit in respect of employee share schemes	–	–	–	19,001	–	–	19,001
Movement on tax arising on share options	–	–	–	10,378	–	–	10,378
Proceeds from sale of own shares	–	–	–	19,085	–	–	19,085
	–	–	–	19,503	–	–	19,503
Balance at 31 December 2009	**672**	**351,578**	**61,474**	**241,950**	**(155)**	**83,178**	**738,697**

* Own shares held Offset within retained earnings is an amount of £65,102,000 (2008: £107,963,000) representing the cost of own shares held being the cost of 60,321,361 (2008: 91,160,488) shares in the Company. Refer to note 20 for further details on the movement on these balances. These shares are expected to be used in part for the benefit of the Group's employees and directors to satisfy share option, restricted stock units (RSUs) and conditional share awards in future periods.

** Revaluation reserve The Group includes on its balance sheet publicly traded investments, which are classified as available-for-sale. These are carried at market value. Unrealised holding gains or losses on such securities are included, net of related taxes, within the revaluation reserve. Any unrealised gains within this reserve are undistributable.

Notes to the financial statements

1 The Group and a summary of its significant accounting policies and financial risk management

1a General information about the Group

The business of the Group

ARM Holdings plc and its subsidiary companies (ARM or "the Group") design microprocessors, physical IP and related technology and software, and sell development tools, to enhance the performance, cost-effectiveness and energy-efficiency of high-volume embedded applications.

The Group licenses and sells its technology and products to leading international electronics companies, which in turn manufacture, market and sell microprocessors, application-specific integrated circuits (ASICs) and application-specific standard processors (ASSPs) based on ARM's technology to systems companies for incorporation into a wide variety of end products.

By creating a network of Partners, and working with them to best utilise ARM's technology, the Group is establishing its processor architecture and physical IP for use in many high-volume embedded microprocessor applications, including cellular phones, digital televisions and PC peripherals and for potential use in many growing markets, including smart cards and microcontrollers.

The Group also licenses and sells development tools direct to systems companies and provides support services to its licensees, systems companies and other systems designers.

The Group's principal geographic markets are Europe, the US and Asia Pacific.

Incorporation and history

ARM is a public limited company incorporated and domiciled under the laws of England and Wales. The registered office of the Company is 110 Fulbourn Road, Cambridge, CB1 9NJ.

The Company was formed on 16 October 1990, as a joint venture between Apple Computer (UK) Limited and Acorn Computers Limited, and operated under the name Advanced RISC Machines Holdings Limited until 10 March 1998, when its name was changed to ARM Holdings plc. Its initial public offering was on 17 April 1998.

Group undertakings include ARM Limited (incorporated in the UK), ARM Inc. (incorporated in the US), ARM KK (incorporated in Japan), ARM Korea Limited (incorporated in South Korea), ARM France SAS (incorporated in France), ARM Belgium NV (incorporated in Belgium), ARM Germany GmbH (incorporated in Germany), ARM Norway AS (incorporated in Norway), ARM Sweden AB (incorporated in Sweden), ARM Embedded Technologies Pvt. Limited (incorporated in India), ARM Physical IP Asia Pacific Pte. Limited (incorporated in Singapore), ARM Taiwan Limited (incorporated in Taiwan) and ARM Consulting (Shanghai) Co. Limited (incorporated in PR China).

1b Summary of significant accounting policies

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. This is in accordance with the Listing Rules of the Financial Services Authority.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation to fair value of available-for-sale investments; share-based payments; financial assets and liabilities (including derivative instruments) at fair value through the income statement; and embedded derivatives.

Critical accounting estimates and judgements

The preparation of these financial statements requires the directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgements are summarised in note 1d.

1b Summary of significant accounting policies continued
New standards, amendments and interpretations

(a) Standards, amendments and interpretations effective in 2009

IFRS 8, "Operating segments" This supersedes IAS 14, "Segmental reporting", under which segments were identified and reported on risk and return analysis. Under IFRS 8, segments are reported based on internal reporting, bringing segment reporting in line with the requirements of US standard FAS 131. Published by the IASB in November 2006, this standard was effective for annual periods beginning on or after 1 January 2009 but was early adopted by the Group in 2008. This amendment is endorsed by the EU.

Amendment to IAS 39, "Financial instruments: Recognition and measurement", and IFRS 7, "Financial instruments: Disclosures" on the 'Reclassification of financial assets'. This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Published in November 2008, this amendment was effective for periods beginning on or after 1 July 2008. This standard does not have a material impact on the Group since it does not have significant assets of this type.

Amendment to IFRS 2, "Share-based payments" This clarifies what events constitute vesting conditions and also specifies that all cancellations, whether by the Group or by another party, should receive the same accounting treatment. This does not have a material impact on the Group's financial statements as it does not have a significant number of the types of options affected. Published by the IASB in January 2008, this amendment is effective for annual periods beginning on or after 1 January 2009. This amendment is endorsed by the EU.

IAS 1 (revised), "Presentation of financial statements" This revised standard requires entities to prepare a statement of comprehensive income. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity are shown in a statement of changes in equity. Also entities making restatements or reclassifications of comparative information are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. Published by the IASB in September 2007, this revised standard is effective for periods beginning on or after 1 January 2009. This amendment is endorsed by the EU. The impact to the Group is the additional disclosure in the financial statements.

IFRS 7 (Revised), "Financial instruments: Disclosures" This amendment forms part of the IASB's response to the financial crisis and is aimed at improving transparency and enhancing accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. Published by the IASB in March 2009, this amendment is effective for periods starting on or after 1 January 2009 with no comparatives for the first year of application. This amendment is endorsed by the EU. This affects the presentation within the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2009 but not relevant

Amendment to IAS 32, "Financial instruments: Presentation", and IAS 1, "Presentation of financial statements on Puttable financial instruments and obligations arising on liquidation" This amendment ensures entities classify Puttable financial instruments and other financial instruments as equity, provided they have particular features and meet specific conditions. Published by the IASB in February 2008, this amendment is effective for periods beginning on or after 1 January 2009. This amendment is endorsed by the EU. This is not relevant to the Group as it does not currently enter into these types of transactions.

IAS 23 (Revised), "Borrowing costs" A result of the joint short-term convergence project with the FASB, this new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This is not relevant to the Group because the Group currently does not fund acquisitions of assets with debt. Published by the IASB in March 2007, this is effective for annual periods beginning on or after 1 January 2009. This amendment is endorsed by the EU.

IFRIC 13, "Customer loyalty programmes relating to IAS 18, Revenue" This provides guidance on accounting for customer loyalty programmes. As the Group does not offer such incentives, it is not relevant. Published by the IASB in June 2007, it is effective for annual periods beginning on or after 1 July 2008. This standard was endorsed by the EU on 17 December 2008 for periods beginning on or after 1 January 2009.

IFRIC 14, "IAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction" This provides guidance on accounting for defined benefit pension schemes. The Group does not have any such schemes and therefore it is not relevant. Published by the IASB in July 2007, it is effective for annual periods beginning on or after 1 January 2009. This interpretation is endorsed by the EU.

IFRIC 15, "Agreements for construction of real estates" This clarifies which standard (IAS 18, 'Revenue', or IAS 11, 'Construction contracts') should be applied to particular transactions and means that IAS 18 is applied to a wider range of transactions. This is not relevant to the Group as it does not have any transactions involving real estate. Published by the IASB in July 2008, it is effective for periods beginning on or after 1 January 2009. This standard was endorsed by the EU on 23 July 2009 for periods beginning after 1 December 2010.

1b Summary of significant accounting policies continued
New standards, amendments and interpretations continued

IFRIC 16, "Hedges of a net investment in a foreign operation" This clarifies the usage and requirements of IAS 21 with respect to net investment hedging. This is not relevant to the Group as it does not undertake such activities. Published by the IASB in July 2008, it is effective for periods beginning on or after 1 October 2008. This interpretation was endorsed by the EU for periods beginning on or after 1 July 2009.

IFRIC 17, "Distributions of non-cash assets to owners" This clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. This is not relevant to the Group as it does not make any distributions of assets to its owners, other than cash. Published by the IASB in November 2008, it is effective for periods beginning on or after 1 July 2009. This interpretation was endorsed by the EU for periods beginning on or after 1 July 2009.

IFRIC 18, "Transfer of assets from customers" This clarifies the accounting for arrangements where an item of property, plant and equipment, which is provided by the customer, is used to provide an ongoing service. This is not relevant to the Group as it does not engage in such activities. Published by the IASB in January 2009, it is effective for transfers of assets from customers received on or after 1 July 2009. This interpretation was endorsed by the EU for periods beginning on or after October 2010.

Amendments to IFRIC 9 and IAS 39, "Embedded derivatives" This amendment allows entities to reclassify particular financial instruments out of the fair value through profit or loss or available for sale categories in specific circumstances. This is not relevant to the Group since it currently does not meet the criteria of the amendment. Published by the IASB in March 2009, it is effective for periods commencing on or after 30 June 2009. This amendment is endorsed by the EU.

IFRS 3, (Revised), "Business combinations" This is equivalent to FAS 141R issued by the FASB in December 2007. The revision to this standard changes accounting for business combinations. While the acquisition method is still applied, there are significant changes to the treatment of contingent payments, transaction costs and the calculation of goodwill. Published by the IASB in January 2008, the standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted. This standard is endorsed by the EU. This could impact the Group's financial statements in future if it makes further acquisitions.

Amendment to IAS 39, "Financial Instruments: Recognition and measurement on eligible hedged items". This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. Published by the IASB in July 2008, it is effective for periods beginning on or after 1 July 2009 and must be applied retrospectively. This is not expected to impact the Group since it does not currently designate any financial instruments as hedges.

IAS 27 (Revised), "Consolidated and separate financial statements" This amendment revises the accounting for transactions with non-controlling interests. Published by the IASB in January 2008, this is effective for annual periods beginning on or after 1 July 2009. This standard is endorsed by the EU. This is not relevant to the Group as it does not have any non-controlling interests.

(c) Standards, amendments and interpretations that are not yet effective and have not been early adopted

Amendment to IAS 24, "Related party disclosures" This removes the requirement for government related entities to disclose details of all transactions with the government and it clarifies and simplifies the definition of a related party. Published by the IASB in November 2009, this is effective for annual periods beginning on or after 1 January 2011. This amendment is not yet endorsed by the EU.

IFRS 9, "Financial instruments on classification and measurement" This is the first part of a new standard to replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Published by the IASB in November 2009, this is effective for annual periods beginning on or after 1 January 2013. This standard is not yet endorsed by the EU.

Amendment to IFRS 2, "Share-based payments group cash-settled transactions" This amendment provides a clear basis to determine the classification of share based payment awards in both consolidated and separate financial statements. Published by the IASB in June 2009, this is effective for annual periods commencing on or after 1 January 2010. This is not yet endorsed by the EU.

Annual improvements 2009 This is a collection of amendments to 12 standards as part of the IASB programme on annual improvement. Published by the IASB In April 2009, this is effective for annual periods beginning on or after 1 January 2010. These amendments are not yet endorsed by the EU.

Amendment to IFRIC 14, "Prepayments of a minimum funding requirement" relates to companies that are required to make minimum funding contributions to a defined benefit pension plan. The Group does not have any such schemes and therefore it will not be relevant. Published by the IASB in November 2009, it is effective for annual periods beginning on or after 1 January 2011. This interpretation is not yet endorsed by the EU.

IFRIC 19, "Extinguishing financial liabilities with equity instruments" clarifies the accounting when an entity re-negotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. Published by the IASB in November 2009, this is effective for annual periods beginning on or after 1 July 2010. This is not yet endorsed by the EU.

1b Summary of significant accounting policies continued
Amendment to IAS 32, "Rights Issues" addresses the accounting for rights issues which are denominated in a currency other than the functional currency of the issuer. This is not relevant to the Group as it does not currently enter into these types of transactions. Published by the IASB October 2009, this is effective for annual periods beginning on or after 1 February 2010. This amendment is endorsed by the EU.

The directors expect that the adoption of these standards, annual improvements and interpretations in future periods will have no material impact on the financial statements when they come into effect for periods after 1 January 2010.

Principles of consolidation The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated on consolidation. All subsidiaries use uniform accounting policies for like transactions and other events and similar circumstances.

Business combinations The results of subsidiaries acquired in the year are included in the income statement from the date they are acquired. On acquisition, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Revisions were made in 2009 to goodwill recognised on acquisitions from the previous year, relating predominantly to transaction costs – see note 15.

Segment reporting
At 31 December 2009, the Group is organised on a world-wide basis into three business segments, namely the Processor Division (PD), the Physical IP Division (PIPD) and the Systems Design Division (SDD). This is based upon the Group's internal organisation and management structure and is the primary way in which the Chief Operating Decision Maker (CODM) and the rest of the board are provided with financial information. The directors believe that the CODM is the Chief Executive Officer of the Group.

Segment expenses are expenses that are directly attributable to a segment together with the relevant portion of other expenses that can reasonably be allocated to the segment. Foreign exchange gains or losses, gains or losses on the disposal of available-for-sale investments, investment income, interest payable and tax are not allocated by segment.

Segment assets and liabilities include items that are directly attributable to a segment plus an allocation on a reasonable basis of shared items. Corporate assets and liabilities are not included in business segments and are thus unallocated. At 31 December 2009 and 2008, these comprise cash and cash equivalents, short-term investments, short-term marketable securities, unlisted investments and the fair value of currency exchange contracts. Any current and deferred tax assets and liabilities are also not included in business segments and are thus unallocated.

Foreign currency translation
(a) Functional and presentation currency The functional currency of each Group entity is the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in sterling, which is the presentation currency of the Group.

(b) Transactions and balances Transactions denominated in foreign currencies have been translated into the functional currency of each Group entity at actual rates of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at rates ruling at the balance sheet date. Such exchange differences have been included in general and administrative expenses.

(c) Group companies The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) not based in the UK are translated into sterling as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate of exchange at the balance sheet date;

(ii) Income and expenses for each income statement presented are translated at the exchange rate ruling at the time of each transaction during the period; and

(iii) All resulting exchange differences are recognised as a separate component of equity, being taken directly to equity via the cumulative translation adjustment.

When a foreign operation is partially disposed of or sold, exchange differences that were recognised in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1b Summary of significant accounting policies continued

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of foreign currency options is based upon valuations performed by an independent bank as well as management's view of market conditions.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values as this is the amount which would be receivable/payable if the assets/liabilities had crystallised at the balance sheet date. Any current tax liabilities are not included in this category.

Revenue recognition

The Group follows the principles of IAS 18, "Revenue recognition", in determining appropriate revenue recognition policies. In principle, therefore, revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the Group.

Revenue comprises the value of sales of licences to ARM technology, royalties arising from the resulting sale of licensees' ARM technology-based products, revenues from support, maintenance and training, consulting contracts and the sale of development boards and software toolkits.

Revenue from standard licence products which are not modified to meet the specific requirements of each customer is recognised when the risks and rewards of ownership of the product are transferred to the customer.

Many licence agreements are for products which are designed to meet the specific requirements of each customer. Revenue from the sale of such licences is recognised on a percentage-of-completion basis over the period from signing of the licence to customer acceptance. Under the percentage-of-completion method, provisions for estimated losses on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined. The percentage-of-completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement, which approximates to the extent of performance.

Where invoicing milestones on licence arrangements are such that the receipts fall due significantly outside the period over which the customisation is expected to be performed or significantly outside its normal payment terms for standard licence arrangements, the Group evaluates whether it is probable that economic benefits associated with these milestones will flow to the Group and therefore whether these receipts should initially be included in the arrangement consideration.

In particular, it considers:

- Whether there is sufficient certainty that the invoice will be raised in the expected timeframe, particularly where the invoicing milestone is in some way dependent on customer activity;
- Whether it has sufficient evidence that the customer considers that the Group's contractual obligations have been, or will be, fulfilled;
- Whether there is sufficient certainty that only those costs budgeted to be incurred will indeed be incurred before the customer will accept that a future invoice may be raised; and
- The extent to which previous experience with similar product groups and similar customers support the conclusions reached.

Where the Group considers that there is insufficient evidence that it is probable that the economic benefits associated with such future milestones will flow to the Group, taking into account these criteria, such milestones are excluded from the arrangement consideration until there is sufficient evidence that it is probable that the economic benefits associated with the transaction will flow into the Group. The Group does not discount future invoicing milestones, as the effect of so doing would be immaterial.

Where agreements involve several components, the entire fee from such arrangements is allocated to each of the individual components based on each component's fair value, where fair value is the price that is regularly charged for an item when sold separately. Where a component in a multiple-component agreement has not previously been sold separately, the assessment of fair value for that component is based on other factors, including, but not limited to, the price charged when it was sold alongside other items and the book price of the component relative to the book prices of the other components in the agreement. If fair value of one or more components in a multiple-component agreement is not determinable, the entire arrangement fee is deferred until such fair value is determinable, or the component has been delivered to the licensee. Where, in substance, two elements of a contract are linked and fair values cannot be allocated to the individual components, the revenue recognition criteria are applied to the elements as if they were a single element.

1b Summary of significant accounting policies continued

Revenue recognition continued

Agreements including rights to unspecified future products (as opposed to unspecified upgrades and enhancements) are accounted for using subscription accounting, with revenue from the arrangement being recognised on a straight-line basis over the term of the arrangement, or an estimate of the economic life of the products offered if no term is specified, beginning with the delivery of the first product.

Certain products have been co-developed by the Group and a collaborative partner, with both parties retaining the right to sell licences to the product. In those cases where the Group makes sales of these products and is exposed to the significant risks and benefits associated with the transaction, the total value of the licence is recorded as revenue and the amount payable to the collaborative partner is recorded as cost of sales. Where the collaborative partner makes sales of these products, the Group records as revenue the commission it is due when informed by the collaborative partner that a sale has been made.

In addition to the licence fees, contracts generally contain an agreement to provide post-delivery service support, in the form of support, maintenance and training which consists of the right to receive services and/or unspecified product upgrades or enhancements that are offered on a when-and-if-available basis. Fees for post-delivery service support are generally specified in the contract. Revenue related to post-delivery service support is recognised based on fair value, which is determined with reference to contractual renewal rates. If no renewal rates are specified, the entire fee under the transaction is amortised and recognised on a straight-line basis over the contractual post-delivery service support period. Where renewal rates are specified, revenue for post-delivery service support is recognised on a straight-line basis over the period for which support and maintenance is contractually agreed by the Group with the licensee.

If the amount of revenue recognised exceeds the amounts invoiced to customers, the excess amount is recorded as amounts recoverable on contracts within accounts receivable. The excess of licence fees and post-delivery service support invoiced over revenue recognised is recorded as deferred revenue.

Sales of software, including development systems, which are not specifically designed for a given licence (such as off-the-shelf software) are recognised upon delivery, when the significant risks and rewards of ownership have been transferred to the customer. At that time, the Group has no further obligations except that, where necessary, the costs associated with providing post-delivery service support have been accrued. Services (such as training) that the Group provides which are not essential to the functionality of the IP are separately stated and priced in the contract and, therefore, accounted for separately. Revenue is recognised as services are performed and it is probable that the economic benefits associated with the transaction will flow into the Group.

Royalty revenues are earned on sales by the Group's customers of products containing ARM technology. Royalty revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenues are recognised when the Group receives notification from the customer of product sales, or receives payment of any fixed royalties. Notification is typically received in the quarter following shipment of produced by the customer.

Revenue from consulting is recognised when the service has been provided and all obligations to the customer under the consulting agreement have been fulfilled. For larger consulting projects containing several project milestones, revenue is recognised on a percentage-of-completion basis described above. Consulting costs are recognised when incurred.

As disclosed above, in accordance with IAS 8, "Accounting policies, changes in accounting estimates and errors", the Group makes significant estimates in applying its revenue recognition policies. In particular, as discussed in detail above, estimates are made in relation to the use of the percentage-of-completion accounting method, which requires that the extent of progress toward completion of contracts may be anticipated with reasonable certainty. The use of the percentage-of-completion method is itself based on the assumption that, at the outset of licence agreements, there is an insignificant risk that customer acceptance is not obtained. The Group also makes assessments, based on prior experience, of the extent to which future milestone receipts represent a probable future economic benefit to the Group. In addition, when allocating revenue to various components of arrangements involving several components, it is assumed that the fair value of each element is reflected by its price when sold separately. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the revenue recognition policies affect the amounts reported in the financial statements. If different assumptions were used, it is possible that different amounts would be reported in the financial statements.

Research and development expenditure

All ongoing research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, production and sale are intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete the project, development costs are capitalised and amortised on a straight-line basis over the estimated useful life of the respective product. The Group believes its current process for developing products is essentially completed concurrently with the establishment of technological feasibility which is evidenced by a working model. Accordingly, development costs incurred after the establishment of technological feasibility have not been significant and, therefore, no costs have been capitalised to date.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Any collaborative agreement whereby a third party agrees to partially fund the Group's research and development is recognised over the period of the agreement as a credit within research and development costs.

1b Summary of significant accounting policies continued

Government grants

Grants in respect of specific research and development projects are credited to research and development costs within the income statement to match the projects' related expenditure.

Retirement benefit costs

The Group contributes to defined contribution plans substantially covering all employees in Europe and the US and to government pension schemes for employees in Japan, South Korea, Taiwan, PR China, Israel and India. The Group contributes to these plans based upon various fixed percentages of employee compensation, and such contributions are expensed as incurred.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Costs in respect of operating leases are charged on a straight-line basis over the lease term even if payments are not made on such a basis.

Investment income

Investment income relates to interest income, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividends

Distributions to equity holders are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders. Interim dividends are recognised as a distribution when paid.

Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury stock and those shares held in the Employee Share Ownership Plan (ESOP), both of which are treated as cancelled. For diluted earnings per share, the weighted number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The diluted share base for the year ended 31 December 2009 excludes incremental shares of approximately 11,986,000 (2008: 38,822,000) related to employee share options. These shares are excluded due to their anti-dilutive effect as a result of the exercise price of these shares being higher than the market price.

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition. External costs and internal costs are capitalised to the extent they enhance the future economic benefit of the asset.

Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, which are adjusted, if appropriate, at each balance sheet date, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal economic lives used for this purpose are:

Freehold buildings	25 years
Leasehold improvements	Five years or term of lease, whichever is shorter
Computers	Three to five years
Fixtures and fittings	Five to ten years
Motor vehicles	Four years

Provision is made against the carrying value of property, plant and equipment where an impairment in value is deemed to have occurred. Asset lives and residual values are reviewed on an annual basis.

Intangible assets

(a) Goodwill Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified and liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, the fair value of share options assumed is calculated using the Black-Scholes valuation model, and the fair value of contingent consideration is based upon whether the directors believe any performance conditions will be met and thus whether any further consideration will be payable.

(b) Other intangible assets Computer software, purchased patents and licences to use technology are capitalised at cost and amortised on a straight-line basis over a prudent estimate of the time that the Group is expected to benefit from them, which is typically three to ten years. Costs that are directly attributable to the development of new business application software and which are incurred during the period prior to the date that the software is placed into operational use, are capitalised. External costs and internal costs are capitalised to the extent they enhance the future economic benefit of the asset.

Although an independent valuation is made of any intangible assets purchased as part of a business combination, the directors are primarily responsible for determining the fair value of intangible assets. Developed technology, existing agreements and customer relationships, core technology, trademarks and tradenames, and order backlog are capitalised and amortised over a period of one to ten years, being a prudent estimate of the time that the Group is expected to benefit from them.

1b Summary of significant accounting policies continued
Intangible assets continued
In-process research and development projects purchased as part of a business combination may meet the criteria set out in IFRS 3, "Business combinations", for recognition as intangible assets other than goodwill. The directors track the status of in-process research and development intangible assets such that their amortisation commences when the assets are brought into use. This typically means a write off period of one to five years.

Amortisation is calculated so as to write off the cost of intangible assets, less their estimated residual values, which are adjusted, if appropriate, at each balance sheet date, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal economic lives used for this purpose are:

Computer software	Three to five years
Patents and licences	Three to ten years
In-process research and development	One to five years
Developed technology	One to five years
Existing agreements and customer relationships	Two to ten years
Core technology	Five years
Trademarks and tradenames	Four to five years
Order backlog	One year

Impairment of non-financial assets
Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation but are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The annual impairment tests in 2008 and 2009 showed there was no impairment with respect to goodwill. Furthermore, no trigger events have been identified that would suggest the impairment of any of the Group's other intangible assets.

Financial assets
The Group does not trade in financial instruments.

The Group classifies its financial assets in the following categories: at fair value through the income statement, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through the income statement Financial assets at fair value through the income statement are financial assets held for trading – that is, assets that have been acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets. They are initially recognised at fair value with transaction costs being expensed in the income statement. Specifically, the Group's currency exchange contracts and embedded derivatives fall within this category. Gains or losses arising from changes in the fair value of "financial assets at fair value through the income statement" are presented in the income statement within general and administrative expenses in the period in which they arise.

(b) Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. "Accounts receivable" and "cash and cash equivalents" are classified as "Loans and receivables" in the balance sheet.

(c) Available-for-sale investments Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Publicly-traded investments are classified as available-for-sale. Initially recognised at fair value plus transaction costs on the trade date, they are revalued at market value at each period end. Unrealised holding gains or losses on such securities are included, net of related taxes, directly in equity via a revaluation reserve except where there is evidence of permanent impairment (see below).

Equity securities that are not publicly traded are also classified as available-for-sale and are recorded at fair value plus transaction costs at the trade date. Given the markets for these assets are not active, the Group establishes fair value by using valuation techniques. At 31 December 2009 and 2008, the estimated fair value of these investments approximated to cost less any permanent diminution in value, based on estimates determined by the directors.

1b Summary of significant accounting policies continued

Financial assets continued

Impairment of financial assets The Group considers at each reporting date whether there is any indication that any financial asset is impaired. If there is such an indication, the Group carries out an impairment test by measuring the assets' recoverable amount, which is the higher of the assets' fair value less costs to sell and their value in use. If the recoverable amount is less than the carrying amount an impairment loss is recognised, and the assets are written down to their recoverable amount.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are permanently impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any permanent impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

When securities classified as available-for-sale are sold or permanently impaired, the accumulated fair value adjustments recognised in equity are recycled through the income statement.

Impairment testing of trade receivables is described under "Accounts receivable" below.

Derivative financial instruments

The Group utilises currency exchange contracts to manage the exchange risk on actual transactions related to accounts receivable, denominated in a currency other than the functional currency of the business. The Group's currency exchange contracts do not subject the Group to risk from exchange rate movements because the gains and losses on such contracts offset losses and gains, respectively, on the transactions being hedged. The currency exchange contracts and related accounts receivable are recorded at fair value at each period end. Fair value is estimated using the settlement rates prevailing at the period end. All recognised gains and losses resulting from the settlement of the contracts are recorded within general and administrative expenses in the income statement. The Group does not enter into currency exchange contracts for the purpose of hedging anticipated transactions.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Short-term investments and short-term marketable securities

The Group considers all highly-liquid investments with original maturity dates of greater than three months but less than one year to be either short-term investments or short-term marketable securities. Any investments with a maturity date of greater than one year from the balance sheet date are classified as long-term.

Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Accounts receivable are first assessed individually for impairment. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are collectively assessed for impairment.

In the case of impairment, the carrying amount of the asset(s) is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative costs in the income statement.

1b Summary of significant accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. In general, cost is determined on a first-in, first-out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow-moving and defective inventory.

Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income taxes

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxes are computed using the liability method. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted rates and laws that will be in effect when the differences are expected to reverse. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will arise against which the temporary differences will be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities arising in the same tax jurisdiction are offset.

In the UK and the US, the Group is entitled to a tax deduction for amounts treated as compensation on exercise of certain employee share options under each jurisdiction's tax rules. As explained under "Share-based payments" below, a compensation expense is recorded in the Group's income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred tax asset is recorded. The deferred tax asset arising is calculated by comparing the estimated amount of tax deduction to be obtained in the future (based on the Company's share price at the balance sheet date) with the cumulative amount of the compensation expense recorded in the income statement. If the amount of estimated future tax deduction exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings.

As explained under "Share-based payments" below, no compensation charge is recorded in respect of options granted before 7 November 2002 or in respect of those options which have been exercised or have lapsed before 1 January 2005. Nevertheless, tax deductions have arisen and will continue to arise on these options. The tax effects arising in relation to these options are recorded directly in equity, against retained earnings.

Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount of the outflow can be reliably estimated.

Embedded derivatives

In accordance with IAS 39, "Financial instruments: recognition and measurement", the Group has reviewed all its contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. From time to time, the Group may enter into contracts denominated in a currency (typically US dollars) that is neither the functional currency of the Group entity nor the functional currency of the customer or the collaborative partner. Where there are uninvoiced amounts on such contracts, the Group carries such derivatives at fair value. The resulting gain or loss is recognised in the income statement under general and administrative expenses, as shown below:

	2009 £000	2008 £000
(Loss)/gain in income statement	(9,818)	12,518

1b Summary of significant accounting policies continued

Share-based payments

The Group issues equity-settled share-based payments to certain employees. In accordance with IFRS 2, "Share-based payments", equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The Group operates Save As You Earn (SAYE) schemes in the UK and an Employee Share Purchase Plan (ESPP) in the US. Options under the SAYE schemes are granted at a 20% discount to market price of the underlying shares on the date of announcement of the scheme and at a 15% discount to the lower of the market prices at the beginning and end of the scheme for the ESPP. The UK SAYE schemes are approved by the UK tax authorities, which stipulates that the saving period must be at least 36 months. The Group has recognised a compensation charge in respect of the SAYE plans and US ESPPs. The charges for these are calculated as detailed above.

The Group also has a Long Term Incentive Plan (LTIP) on which it is also required to recognise a compensation charge under IFRS 2, calculated as detailed above.

The share-based payments charge is allocated to cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses on the basis of headcount.

Employer's taxes on share options

Employer's National Insurance in the UK and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the intrinsic value of the relevant options at the balance sheet date, pro-rated over the vesting period of the options.

Employee share ownership plans

The Group's Employee Benefit Trust (the "Trust") was set up on 16 April 1998 to administer the Group's Employee Share Ownership Plan (ESOP). The Trust was funded by loans from the Group, with its assets comprising shares in the Company. The Group recognised the assets and liabilities of the Trust in its own accounts and the carrying value of the Company's shares held by the Trust were recorded as a deduction in arriving at shareholders' funds until such time as the shares vested unconditionally to employees. All shares held within the Trust were awarded during 2008 and it has now been wound up.

Treasury shares

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

1c Financial risk management
The Group operates in the intensely competitive semiconductor industry which has been characterised by price erosion, rapid technological change, short product life cycles, cyclical market patterns and heightened foreign and domestic competition. Significant technological changes in the industry could affect operating results.

The Group's operations expose it to a variety of financial risks that include currency risk, interest rate risk, price risk, credit risk and liquidity risk.

Given the size of the Group, the directors have not delegated the responsibility for monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Group's finance department. The Group has a treasury policy that sets out specific guidelines to manage currency risk, interest rate risk, securities price risk, credit risk and liquidity risk and also sets out circumstances where it would be appropriate to use financial instruments to manage these.

Currency risk
The Group's earnings and liquidity are affected by fluctuations in foreign currency exchange rates, principally in respect of the US dollar, reflecting the fact that most of its revenues and cash receipts are denominated in US dollars, while a significant proportion of its costs are settled in sterling. The Group seeks to use currency exchange contracts and currency options to manage the US dollar/sterling risk as appropriate, by monitoring the timing and value of anticipated US dollar receipts (which tend to arise from low-volume, high-value licence deals and royalty receipts) in comparison with its requirement to settle certain expenses in US dollars. The Group reviews the resulting exposure on a regular basis and hedges this exposure using currency exchange contracts and currency options for the sale of US dollars as appropriate. Such contracts are entered into with the objective of matching their maturity with projected US dollar cash receipts.

The Group is also exposed to currency risk in respect of the foreign currency denominated assets and liabilities of its overseas subsidiaries. At present, the Group does not mitigate this risk, for example by using foreign currency intra-group loans, as it has currently no requirement for external borrowings.

At 31 December 2009, the Group had outstanding currency exchange contracts to sell $45 million (2008: $100 million) for sterling. In addition, the Group utilises option instruments which have various provisions that, depending on the spot rate at maturity, give either the Group or the counterparty the option to exercise. At 31 December 2009, the Group had outstanding currency options under which the Group may, under certain circumstances, be required to sell up to $106 million (2008: $144 million) for sterling. A common scenario with options of this type is that the spot price at expiry is such that neither the Group nor the counterparty chooses to exercise the option. The Group had $87 million (2008: $86 million) of accounts receivable denominated in US dollars at that date, and US dollar cash, cash equivalents, short-term investments and marketable securities balances of $26 million (2008: $61 million). Thus the Group's currency exchange contracts and currency options at the year-end potentially exceeded its US dollar current assets. This is because the Group has taken longer term positions through its currency exchange contracts given the predictable nature of the Group's cash flows.

The Group has elected not to apply hedge accounting, and all movements in the fair value of derivative foreign exchange instruments are recorded in the income statement, offsetting the foreign exchange movements on the accounts receivable, cash, cash equivalents, short-term investments and short-term marketable securities balances being hedged.

In addition, certain customers remit royalties and licence fees in other currencies, primarily the euro. The Group is also required to settle certain expenses in euros, primarily in its French, Belgian and German subsidiaries, and as the net amounts involved are not considered significant, the Group does not take out euro currency exchange contracts.

As at 31 December 2009, if sterling had strengthened by 10% against foreign currencies with all other variables held constant, post-tax profit for the year and equity (excluding non-monetary assets and liabilities) would have been £2.7 million lower (2008: sterling weakened by 10%, post tax-profit and equity lower by £4.2 million), mainly as a result of the mix of financial instruments at respective year-ends.

Interest rate risk
At 31 December 2009, the Group had £149 million (2008: £79 million) of interest-bearing assets. At 31 December 2009, 75% (2008: 38%) of interest-bearing assets (comprising cash and cash equivalents, short-term investments and marketable securities and the Group's convertible loan notes), are at fixed rates and are therefore exposed to fair value interest rate risk. Floating rate cash earns interest based on relevant national LIBID or base rate equivalents and is therefore exposed to cash flow interest rate risk. The proportion of funds held in fixed rather than floating rate deposits is determined in accordance with the policy outlined under "Liquidity risk" below. Other financial assets, such as available-for-sale investments, are not directly exposed to interest rate risk.

Had interest rates been 1% lower throughout the year, interest receivable would have reduced by approximately £0.9 million (2008: £0.6 million) and profit after tax by £0.6 million (2008: £0.4 million).

The Group had no borrowings during 2008 or 2009.

1c Financial risk management continued

Interest rate risk continued

The Group has no derivative financial instruments to manage interest rate fluctuations in place at the year-end since it has no loan financing, and as such no hedge accounting is applied. The Group's cash flow is carefully monitored on a daily basis. Excess cash, considering expected future cash flows, is placed on either short-term or medium-term deposit to maximise the interest income thereon. Daily surpluses are swept into higher-interest earning accounts overnight.

Securities price risk

The Group is exposed to equity securities price risk on available-for-sale investments. As there can be no guarantee that there will be a future market for securities (which are generally unlisted at the time of investment) or that the value of such investments will rise, the directors evaluate each investment opportunity on its merits before committing ARM's funds. The board of directors reviews holdings in such companies on a regular basis to determine whether continued investment is in the best interests of the Group. Funds for such ventures are limited in order that the financial effect of any potential decline of the value of investments will not be substantial in the context of the Group's financial results.

(i) Listed investments At 31 December 2009 and 2008, the Group had no listed investments.

(ii) Unlisted investments The Group has unlisted investments (including convertible loan notes) with a carrying value as at 31 December 2009 of £9.4 million (2008: £1.2 million). A permanent 10% fall in the underlying value of these companies as at 31 December 2009 would therefore have reduced the Group's post-tax profit by £0.7 million (2008: £0.1 million) and resulted in a £nil (2008: £nil) reduction in other components of equity.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

As at 31 December 2009, the Group has no significant concentrations of credit risk. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board of directors.

Financial instrument counterparties are subject to pre-approval by the board of directors and such approval is limited to financial institutions with at least an AA rating, or (in the case of UK building societies) had over £1 billion in assets, except in certain jurisdictions where the cash holding concerned is immaterial. At 31 December 2008 and 2009, the majority of the Group's cash, cash equivalents, short-term investments and marketable securities were deposited with major clearing banks and building societies in the UK and US in the form of money market deposits and corporate bonds for varying periods up to one year.

Over 90% of the Group's cash and cash equivalents, short-term investments and marketable securities were held with global financial institutions with at least an AA rating, or (in the case of UK building societies) had over £1 billion in assets, as at 31 December 2009 and 2008.

The Group has implemented policies that require appropriate credit checks on potential customers before sales commence. The Group generally does not require collateral on accounts receivable, as many of its customers are large, well-established companies. The Group has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

The Group markets and sells to a relatively small number of customers with individually large value transactions. At 31 December 2009, one (2008: one) customer accounted for just over 10% of accounts receivable. All monies owed from this customer in respect of the amounts due at 31 December 2009 have been paid after the year-end. This customer was one of many large, established semiconductor companies that accounted in total for over 80% of the year-end accounts receivable balance, where the risk of default on monies owed is deemed negligible. The Group performs credit checks on all customers (other than those paying in advance) in order to assess their creditworthiness and ability to pay its invoices as they become due. As such, the balance of accounts receivable not owed by the large semiconductor companies is still deemed by management to be of low risk of default due to the nature of the checks performed on them, and accordingly a relatively small allowance against these receivables is in place to cover this low risk of default.

No credit limits were exceeded during the reporting period and management does not expect any significant losses from non-performance by these counterparties.

1c Financial risk management continued

Liquidity risk

The Group's policy is to maintain balances of cash, cash equivalents, short-term investments and marketable securities, such that highly liquid resources exceed the Group's projected cash outflows at all times. Surplus funds are placed on fixed- or floating-rate deposits depending on the prevailing economic climate at the time (with reference to forward interest rates) and also on the required maturity of the deposit (as driven by the expected timing of the Group's cash receipts and payments over the short- to medium-term).

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. This is carried out at both a local and a Group level, with the local subsidiaries being funded by Group as required.

The table below analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period from the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than six months £000	Between six months and one year £000
At 31 December 2009:		
Accounts payable	2,280	–
At 31 December 2008:		
Accounts payable	6,953	–
Other liabilities	3,411	–

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than three months 000s	Over three months but less than six months 000s	Between six months and one year 000s
Forward foreign exchange contracts – held-for-trading at 31 December 2009			
Outflow	$42,000	$3,000	–
Inflow	£25,911	£1,892	–
Foreign exchange options – held-for-trading at 31 December 2009			
Outflow (maximum)	$36,000	$32,500	$37,500
Inflow (maximum)	£23,463	£21,014	£24,599
Forward foreign exchange contracts – held-for-trading at 31 December 2008			
Outflow	$94,000	$6,000	–
Inflow	£59,510	£4,095	–
Foreign exchange options – held-for-trading at 31 December 2008			
Outflow (maximum)	$44,300	$42,000	$58,000
Inflow (maximum)	£25,704	£24,488	£35,379

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of cash, cash equivalents, short-term investments and marketable securities and capital and reserves attributable to equity holders of the Company, as disclosed in note 19 and the consolidated statement of changes in shareholders' equity.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets to raise cash or take on debt.

Between 2004 and 2007, the Group's strategy was to increase its balance sheet efficiency by reducing its cash balance via returning cash to shareholders through a progressive dividend policy and a rolling share buyback programme. Whilst the Group intends to further increase balance sheet efficiency over time, in 2008 and 2009, recognising the uncertain macroeconomic environment, the net cash balance was increased from £51.3 million at the start of 2008 to £78.8 million at 31 December 2008 and to £141.8 million at 31 December 2009. In the year, the dividend was increased by 10% reflecting the board's long-term confidence in the business. No share buybacks were made in the year, though the programme remains in place and will be used as and when the board believe it is appropriate to do so. The capital structure is continually monitored by the Group.

1c Financial risk management continued

Capital risk management continued

During 2008, the Group entered into a £50 million revolving credit facility providing the Group access to funds for any corporate purpose. The Group did not drawdown on this facility at any time during 2008 or 2009 and it was not renewed in 2009.

Fair value of currency exchange contracts

The fair value of currency exchange contracts is estimated using the settlement rates. The estimation of the fair value of the asset in respect of currency exchange contracts is £457,000 at 31 December 2009 (2008: liability of £18,457,000). The liability in 2008 was due to the mix of contracts, settlement rates and currency volatility but predominantly due to the significant strengthening of the US dollar during the second half of 2008, resulting in the year-end USD/GBP spot rate being lower than the majority of settlement rates. All of these contracts matured during the year, and with the strengthening of sterling during 2009, the majority of these accrued losses did not crystallise at settlement. The resulting gains and losses on the movement of the fair value of currency exchange contracts is recognised in the income statement under general and administrative expenses, as shown below:

	2009 £000	2008 £000
Gain/(loss) in income statement	18,914	(17,961)

Valuation hierarchy

The table below shows the financial instruments carried at fair value by valuation method:

2009	Level 1* £000	Level 2* £000	Level 3* £000	Total £000
Assets				
Fair value through the profit or loss:				
Embedded derivatives	–	2,480	–	2,480
Currency exchange contracts	–	457	–	457
	–	2,937	–	2,937
Available-for-sale:				
Short-term investments	105,524	–	–	105,524
Short-term marketable securities	1,795	–	–	1,795
Other long-term investments	–	–	9,432	9,432
	107,319	–	9,432	116,751
Total assets	107,319	2,937	9,432	119,688

* Level 1 valued using unadjusted quoted prices in active markets for identical instruments. Level 2 valued using techniques based significantly on observable market data. Level 3 valued using information other than observable market data.

Level 3 financial assets

	Other long-term investments £000	Total £000
Balance, at 1 January 2009	1,167	1,167
Additions	9,116	9,116
Disposals	(439)	(439)
Impairments	(412)	(412)
Balance, at 31 December 2009	9,432	9,432

1d Critical accounting estimates and judgements
The preparation of financial statements in accordance with generally accepted accounting principles requires the directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill
The Group tests goodwill for impairment at least annually. This requires an estimation of the value in use of the cash generating units (CGUs) to which goodwill is allocated. As discussed in detail in note 15, estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present values of those cash flows.

Revenue recognition
Revenue from the sale of licence agreements which are designed to meet the specific requirements of each customer is recognised on a percentage-of-completion method basis. Use of this method requires the directors to estimate the total project resource requirement and also any losses on uncompleted contracts.

Provisions for income taxes
The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Provision for impairment of trade receivables
The Group assesses trade receivables for impairment which requires the directors to estimate the likelihood of payment forfeiture by customers.

Legal settlements and other contingencies
Determining the amount to be accrued for legal settlement requires the directors to estimate the committed future legal and settlement fees the Group is expecting to incur. Where suits are filed against the Group for infringement of patents, the directors assess the extent of any potential infringement based on legal advice and written opinions received from external counsel and then estimate the level of accrual required.

Contingent consideration for an acquisition is recognised as part of the purchase consideration if the contingent conditions are expected to be satisfied. This requires the directors to estimate the acquiree's future financial performance, typically more than one year post-acquisition.

2 Segmental reporting
At 31 December 2009 the Group is organised on a world-wide basis into three main business segments:

Processor Division (PD), encompassing those resources that are centred around microprocessor cores, including specific functions such as graphics IP, fabric IP, embedded software and configurable digital signal processing IP.

Physical IP Division (PIPD), concerned with the building blocks necessary for translation of a circuit design into actual silicon.

Systems Design Division (SDD), focused on the tools and models used to create and debug software and system-on-chip (SoC) designs.

This is based upon the Group's internal organisation and management structure and is the primary way in which the CODM is provided with financial information. Whilst revenues are reported into four main revenue streams (namely licensing, royalties, development systems and services), the costs, operating results and balance sheets are only analysed into these three divisions.

The acquisition of Logipard in 2008 was allocated to PD, together with the related goodwill.

The following analysis is of revenues; operating costs; investment income; interest payable; profit/(loss) before tax; tax; profit/(loss) after tax; depreciation; amortisation of intangible assets; share-based payment costs; capital expenditure; total assets and liabilities; net assets and goodwill for each segment and the Group in total.

2 Segmental reporting continued

Business segment information

Year ended 31 December 2009	Processor Division £000	Physical IP Division £000	Systems Design Division £000	Unallocated £000	Group £000
Segmental income statement					
Revenue	227,191	44,890	32,941	–	305,022
Operating costs	(148,820)	(81,070)	(37,019)	7,501	(259,408)
Investment income	–	–	–	1,788	1,788
Interest payable	–	–	–	(143)	(143)
Profit/(loss) before tax	78,371	(36,180)	(4,078)	9,146	47,259
Tax	–	–	–	(6,820)	(6,820)
Profit/(loss) for the year	**78,371**	**(36,180)**	**(4,078)**	**2,326**	**40,439**
Segmental balance sheet					
Total assets	215,271	402,223	28,089	198,900	844,483
Total liabilities	(54,457)	(24,839)	(9,234)	(17,256)	(105,786)
Net assets	**160,814**	**377,384**	**18,855**	**181,644**	**738,697**
Other segmental items					
Depreciation	2,775	2,140	703	–	5,618
Amortisation of intangible assets (including software)	3,709	13,933	1,693	–	19,335
Share-based payments costs	10,698	4,992	3,311	–	19,001
Capital expenditure	2,860	3,427	588	–	6,875
Goodwill	135,723	366,258	14,817	–	516,798
Revenues (USD)	$365,730	$72,148	$51,575	–	$489,453

Year ended 31 December 2008	Processor Division £000	Physical IP Division £000	Systems Design Division £000	Unallocated £000	Group £000
Segmental income statement					
Revenue	221,354	46,432	31,148	–	298,934
Operating costs	(124,597)	(73,173)	(38,189)	(3,032)	(238,991)
Investment income	–	–	–	3,297	3,297
Interest payable	–	–	–	(51)	(51)
Profit/(loss) before tax	96,757	(26,741)	(7,041)	214	63,189
Tax	–	–	–	(19,597)	(19,597)
Profit/(loss) for the year	**96,757**	**(26,741)**	**(7,041)**	**(19,383)**	**43,592**
Segmental balance sheet					
Total assets	235,899	463,302	32,136	116,846	848,183
Total liabilities	(41,696)	(20,192)	(10,617)	(35,335)	(107,840)
Net assets	**194,203**	**443,110**	**21,519**	**81,511**	**740,343**
Other segmental items					
Depreciation	2,740	1,496	934	–	5,170
Amortisation of other intangible assets	2,692	16,187	2,903	–	21,782
Share-based payments cost	8,937	3,698	2,774	–	15,409
Capital expenditure	3,444	4,466	810	–	8,720
Goodwill	143,649	407,940	16,255	–	567,844
Revenues (USD)	$403,541	$84,874	$57,796	–	$546,211

There are no inter-segment revenues. Unallocated operating costs are foreign exchange revaluation on monetary items, including cash and cash equivalents. Unallocated assets and liabilities include: cash and cash equivalents; short-term investments and marketable securities; deferred tax balances; current tax and VAT. Capital expenditure comprises additions to property, plant and equipment and other intangible assets, including additions resulting from acquisitions through business combinations.

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

2 Segmental reporting continued

Geographical information

The Group manages its business segments on a global basis. The operations are based in three main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows:

- Europe
- United States
- Asia Pacific

Analysis of revenue by destination*:

	2009 £000	2008 £000
United States	84,747	90,648
Japan	48,014	54,561
South Korea	41,381	33,472
Taiwan	34,828	26,746
China	15,835	10,008
British Virgin Islands	14,550	15,985
Netherlands	14,347	16,410
Rest of Europe	32,786	35,074
Rest of North America	10,702	6,370
Rest of Asia Pacific	7,832	9,660
	305,022	**298,934**

* Destination is defined as the location of ARM's customers.

The Group's exports from the UK were £293.2 million and £281.1 million for the years ended 31 December 2009 and 2008 respectively.

Analysis of revenue by origin:

	2009 £000	2008 £000
Europe*	296,785	286,299
United States	7,838	12,181
Asia Pacific	399	454
	305,022	**298,934**

* Includes the UK which had total revenues of £295.0 million in 2009 (2008: £284.6 million).

Analysis of revenue by revenue stream:

	2009 £000	2008 £000
Licensing	98,446	103,506
Royalties	155,447	147,728
Services	18,188	16,552
Development systems	32,941	31,148
	305,022	**298,934**

Analysis of non-current assets (excluding deferred tax assets, goodwill and other intangible assets):

	2009 £000	2008 £000
Europe*	14,410	8,278
United States	7,975	8,502
Asia Pacific	2,223	2,411
	24,608	**19,191**

* Includes the UK which had non-current assets (excluding deferred tax assets, goodwill and other intangible assets) of £14.0 million in 2009 (2008: £7.8 million).

3 Key management compensation and directors' emoluments

Key management compensation

The directors are of the opinion that the key management of the Group comprises the executive and non-executive directors of ARM Holdings plc together with the Executive Committee (comprising all directors of ARM Limited and certain senior management). These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. At 31 December 2009, key management comprised 21 people (2008: 21).

The aggregate amounts of key management compensation are set out below:

	2009 £000	2008 £000
Salaries and short-term employee benefits	6,441	5,756
Share-based payments	2,697	3,114
Group pension contributions to money purchase schemes	341	312
	9,479	**9,182**

Directors' emoluments

The aggregate emoluments of the directors of the Company are set out below:

	2009 £000	2008 £000
Aggregate emoluments in respect of qualifying services	3,842	3,602
Aggregate Group pension contributions to money purchase schemes	203	194
Aggregate gains on exercise of share options	976	12
Aggregate amounts receivable under the Long Term Incentive Plan	477	635
	5,498	**4,443**

Detailed disclosures of directors' emoluments are shown on page 53. Details of directors' interests in share options and awards are shown on pages 49 to 52 which form part of the financial statements.

4 Employee information

The average monthly number of persons, including executive directors, employed by the Group during the year was:

	2009 Number	2008 Number
By segment		
Processor Division	893	834
Physical IP Division	512	532
Systems Design Division	318	345
	1,723	**1,711**

	2009 Number	2008 Number
By activity		
Research and development	1,141	1,115
Sales and marketing	334	350
General and administrative	248	246
	1,723	**1,711**

	2009 £000	2008 £000
Staff costs (for the above persons)		
Wages and salaries	106,711	96,893
Restructuring costs	8,659	2,166
Share-based payments (note 22)	19,001	15,409
Social security costs	12,362	10,698
Other pension costs	5,281	4,594
	152,014	**129,760**

5 Profit before tax: analysis of expenses by nature

The following items have been charged/(credited) to the income statement in arriving at profit before tax:

	2009 £000	2008 £000
Staff costs, including share-based payments (note 4)	152,014	129,760
Restructuring charges (of which £8,084,000 (2008: £1,640,000) is included in staff costs above)	8,471	1,872
Cost of inventories recognised as an expense (including inventory write downs of £211,000)	2,659	3,522
Depreciation of property, plant and equipment – owned assets (note 14)	5,618	5,170
Amortisation of other intangible assets (note 16):		
– Cost of sales	385	463
– Research and development	7,656	10,854
– Sales and marketing	8,483	8,074
– General and administrative	2,811	2,391
Impairment of available-for-sale investments	412	–
Profit on disposal of available-for-sale investments	(224)	–
Loss on disposal of property, plant and equipment	79	36
Other operating lease rentals payable		
– Plant and machinery	17,524	12,075
– Property	6,610	6,960
Accounts receivables impairment (including movement in provision)	1,018	3,702
Foreign exchange (gains)/losses (including movement on embedded derivatives)	(7,309)	3,032

Services provided by the Group's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor and its associates:

	2009 £000	2008 £000
Fees payable to the Group's auditor for the audit of the Company and consolidated financial statements	241	294
Fees payable to the Group's auditor and its associates for other services:		
– The audit of the Group's subsidiaries pursuant to legislation	238	247
– Services pursuant to section 404 of the Sarbanes-Oxley Act	247	255
– Other services pursuant to legislation	86	52
Statutory audit, financial reporting and other related services	812	848
– Tax services	412	364
– All other services	109	430
	1,333	**1,642**

Fees payable to other major firms of accountants for non-audit services (including royalty audits and other tax services) for 2009 amount to £959,000 (2008: £1,794,000).

Notes to the financial statements continued

6 Tax

Analysis of charge in the year:

	2009 £000	2008 £000
Current tax	17,792	24,751
Deferred tax	(10,972)	(5,154)
Taxation	**6,820**	**19,597**

Analysis of tax on items charged to equity:

	2009 £000	2008 £000
Deferred tax charge on available-for-sale investments	–	84
Deferred tax (credit)/charge on outstanding share options	(9,593)	1,838
Current tax benefit on share options	(785)	(808)

The tax for the year is different to the standard rate of corporation tax in the UK, as explained below:

	2009 £000	2008 £000
Profit before tax	47,259	63,189
Profit before tax multiplied by rate of corporation tax in the UK of 28% (2008: 28.5%)	13,233	18,009
Effects of:		
Adjustments to tax in respect of prior years	(2,664)	(707)
Adjustments in respect of foreign tax rates	295	1,174
Research and development tax credits	(5,650)	(5,424)
Permanent differences – foreign exchange	4,462	279
Permanent differences – other*	402	1,979
Movements in deferred tax assets relating to losses	–	(1,786)
Foreign withholding tax	1,648	2,551
Amortisation of other intangible assets	(1,294)	(1,524)
Timing differences in respect of share-based payments	(3,612)	3,170
Other differences	–	1,876
Total taxation	**6,820**	**19,597**

* Includes expenditure disallowable for tax purposes and benefits resulting from restructuring following the acquisition of Artisan.

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate relevant to each tax jurisdiction.

The movement on the deferred tax account is shown below:

	2009 £000	2008 £000
At 1 January	22,840	17,598
Profit and loss credit	10,972	5,154
Adjustment in respect of share-based payments	9,593	(1,838)
Exchange differences	(1,408)	3,404
Amount acquired with subsidiary undertakings	7	(1,394)
Available-for-sale investments	–	(84)
At 31 December	**42,004**	**22,840**

6 Tax continued

Deferred tax assets have been partially recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is not probable that the unrecognised portion of these assets will be recovered. The amount of deferred tax assets unrecognised at 31 December 2009 is £7,678,000 (2008: £8,617,000).

No deferred tax has been recognised in respect of a further £29.0 million (2008: £16.2 million) of unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of the differences and either it is probable that such differences will not reverse in the foreseeable future or no tax is payable on the reversal.

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets

	Amounts relating to share-based payments £000	Temporary difference on available-for-sale investments £000	Temporary differences relating to fixed assets £000	Tax losses and R&D tax credits carried forward £000	Non-deductible reserves £000	Total £000
At 1 January 2009	5,150	594	7,306	14,074	9,604	36,728
Profit and loss (charge)/credit	5,311	(220)	(392)	(4,152)	2,471	3,018
Movement on deferred tax arising on outstanding share options	9,593	–	–	–	–	9,593
Unutilised current year share option deductions	(1,109)	–	–	1,109	–	–
Exchange differences	–	–	–	(1,877)	–	(1,877)
At 31 December 2009 (prior to offsetting)	**18,945**	**374**	**6,914**	**9,154**	**12,075**	**47,462**
Offsetting of deferred tax liabilities						(4,738)
At 31 December 2009 (after offsetting)						**42,724**
At 1 January 2008	14,664	678	4,606	2,669	8,553	31,170
Reclassification	(6,479)	–	–	6,479	–	–
Profit and loss (charge)/credit	(1,197)	–	2,700	(1,297)	1,051	1,257
Available-for-sale investments	–	(84)	–	–	–	(84)
Movement on deferred tax arising on outstanding share options	(1,838)	–	–	–	–	(1,838)
Exchange differences	–	–	–	6,223	–	6,223
At 31 December 2008 (prior to offsetting)	**5,150**	**594**	**7,306**	**14,074**	**9,604**	**36,728**
Offsetting of deferred tax liabilities						(12,665)
At 31 December 2008 (after offsetting)						**24,063**

6 Tax continued

Deferred tax liabilities

	Amounts relating to intangible assets arising on acquisition £000	Other £000	Total £000
At 1 January 2009	10,444	3,444	13,888
Acquired with subsidiary (Logipard)	(7)	–	(7)
Movement in respect of amortisation of intangible assets	(5,205)	–	(5,205)
Other short-term differences	–	(2,749)	(2,749)
Exchange differences	(469)	–	(469)
At 31 December 2009 (prior to offsetting)	**4,763**	**695**	**5,458**
Offsetting of deferred tax assets			(4,738)
At 31 December 2009 (after offsetting)			**720**
At 1 January 2008	13,572	–	13,572
Acquired with subsidiary (Logipard)	1,394	–	1,394
Movement in respect of amortisation of intangible assets	(7,341)	–	(7,341)
Other short-term differences	–	3,444	3,444
Exchange differences	2,819	–	2,819
At 31 December 2008 (prior to offsetting)	**10,444**	**3,444**	**13,888**
Offsetting of deferred tax assets			(12,665)
At 31 December 2008 (after offsetting)			**1,223**

The deferred tax liability due after more than one year prior to offsetting is £1,198,000 (2008: £5,025,000).

7 Dividends

	2009 £000	2008 £000
Final 2007 paid at 1.20 pence per share	–	15,267
Interim 2008 paid at 0.88 pence per share	–	11,116
Final 2008 paid at 1.32 pence per share	16,634	–
Interim 2009 paid at 0.97 pence per share	12,327	–

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2009 of 1.45 pence per share which will absorb an estimated £19.0 million of shareholders' funds. It will be paid on 19 May 2010 to shareholders who are on the register of members on 30 April 2010.

8 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the ESOP and treasury stock which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company had two categories of dilutive potential ordinary shares during the year: those being share options granted to employees and directors where the exercise price is less than the average market price of the Company's ordinary shares during the year and the awards made under the Company's Restricted Stock Unit (RSU), Deferred Annual Bonus Plan (DAB) and Long Term Incentive Plan (LTIP) schemes. For 2009 and 2008 no shares that were allocated for awards under the LTIP were included in the diluted EPS calculation as the performance criteria could not be measured until the conclusion of the performance period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are shown on the face of the income statement.

9 Cash and cash equivalents

	2009 £000	2008 £000
Cash at bank and in hand	32,489	48,997
Bank deposits with original maturity of less than three months	2,000	27,505
	34,489	**76,502**

The effective interest rate on short-term deposits outstanding at the year-end was 1.5% (2008: 3.6%) and these deposits have an average maturity of 27 days (2008: 38 days).

Cash and cash equivalents The carrying amount approximates to fair value because of the short-term maturity of these instruments, being no greater than three months.

10 Accounts receivable

	2009 £000	2008 £000
Trade debtors (including receivables from related parties – see note 26)	55,289	60,732
Less: Provision for impairment of trade debtors	(2,395)	(1,744)
Trade debtors, net	52,894	58,988
Amounts recoverable on contracts	12,353	17,926
Current accounts receivable	**65,247**	**76,914**

Movements in the Group's provision for impairment of trade debtors are as follows:

	2009 £000	2008 £000
At 1 January	(1,744)	(1,504)
Charged to income statement	(1,018)	(641)
Utilised/reclassification	263	430
Foreign exchange	104	(29)
At 31 December	**(2,395)**	**(1,744)**

See also note 18 for further disclosure regarding the credit quality of the Group's gross trade receivables.

11 Prepaid expenses and other assets

	2009 £000	2008 £000
Other receivables	9,414	9,402
Prepayments and accrued income	14,221	13,732
Current prepaid expenses and other assets	23,635	23,134
Plus: non-current prepayments and accrued income	1,611	2,102
Total prepaid expenses and other assets	**25,246**	**25,236**

12 Inventories

	2009 £000	2008 £000
Finished goods	2,138	2,219
Less: Provision for obsolescence of inventories	(458)	(247)
	1,680	**1,972**

13 Available-for-sale financial assets

Current:

	Short-term investments £000	Short-term marketable securities £000	Total £000
At 1 January 2009	471	1,816	2,287
Net cash invested in the year	105,070	–	105,070
Revaluation through equity	–	130	130
Exchange differences	(17)	(151)	(168)
At 31 December 2009	**105,524**	**1,795**	**107,319**

	Short-term investments £000	Short-term marketable securities £000	Listed short-term investments £000	Total £000
At 1 January 2008	232	1,582	1,180	2,994
Net cash invested in the year	233	–	–	233
Disposals	–	–	(1,180)	(1,180)
Revaluation through equity	–	(285)	–	(285)
Exchange differences	6	519	–	525
At 31 December 2008	**471**	**1,816**	**–**	**2,287**

Non-current:

	Other long-term investments £000	Total £000
Net book value		
At 1 January 2009	1,167	1,167
Additions	9,116	9,116
Disposals	(439)	(439)
Impairments	(412)	(412)
At 31 December 2009	**9,432**	**9,432**

	Other long-term investments £000	Total £000
Net book value		
At 1 January 2008	3,701	3,701
Additions	1,029	1,029
Disposals	(4,813)	(4,813)
Exchange differences	1,250	1,250
At 31 December 2008	**1,167**	**1,167**

Short-term marketable securities There is a readily available market for these investments. Unrealised gains and losses on these investments are recognised directly in equity via the revaluation reserve. The Group recognises an impairment charge when the decline in fair value below cost is judged to be other than temporary. At 31 December 2009 and 2008, the fair value is equal to cost.

13 Available-for-sale financial assets continued

Other long-term investments

Those unlisted companies in which the Group has invested are generally early-stage development enterprises, which are generating value for shareholders through research and development activities, and most do not currently report profits (carrying value at 31 December 2009: £9,432,000; 2008: £1,167,000). The directors are of the opinion that the fair value of these investments approximates to carrying value. Provisions have been made against other investments to reflect any impairment in value.

Additions in the year included:

- a 15% investment and a convertible loan note to Cognovo Limited (a UK company specialising in software-defined modem techniques and solutions);
- a convertible loan note to Ideaworks 3D Limited (a UK software company specialising in enabling games and applications to be deployed across multiple platforms and operating systems on mobile devices);
- a 5% investment in eSol Co. Ltd. (an embedded software company in Japan);
- a 5% investment in Arteris Holdings Inc. (a US network-on-chip company providing system-on-chip interconnect IP and related tools);
- a less than 5% investment in Triad Semiconductor Inc. (a US chip company specialising in mixed signal ASICs);
- a convertible loan note to Smooth-stone Inc. (a US company specialising in low-power server technology); and
- a 10% investment in Cyclos Semiconductor Inc. (a US company specialising in on-chip energy harvesting).

During the year, the Group disposed of its investment in Luminary Micro Inc. (a private fabless semiconductor company based in Texas which develops pioneering ARM architecture-based SoC products).

Included in other investments are the Group's less than 1% investment in the share capital of Pixim Inc. (a private fabless chip company based in California); a less than 1% holding in Reciva Limited (an internet radio company based in the UK); and a minority holding in Embest Info & Tech Co. Ltd (a niche developer of embedded hardware and software based in China) and a less than 1% investment in the share capital of CoWare Inc. (a company which develops system-on-chip software for a wide range of applications).

The exchange difference in 2008 noted in the table above results from our holding in a US dollar denominated convertible loan note to W&W Communications Inc. (an unlisted US company). W&W was acquired in December 2008, at which time the loan notes were repaid.

Available-for-sale financial assets include the following:

	2009 £000	2008 £000
Short-term investments – UK	105,339	–
Short-term investments – Korea	185	471
Unlisted short-term marketable securities – US	1,795	1,816
Total current financial assets	**107,319**	2,287
Unlisted equity securities – UK	25	50
Unlisted equity securities – China	123	123
Unlisted equity securities – Japan	890	–
Unlisted equity securities – US	1,416	994
Convertible loan notes – UK	6,615	–
Convertible loan notes – US	363	–
Total non-current financial assets	**9,432**	1,167
Total financial assets	**116,751**	**3,454**

Available-for-sale financial assets are denominated in the following currencies:

	2009 £000	2008 £000
Sterling	114,408	1,167
US dollars	2,158	1,816
Korean won	185	471
Total financial assets	**116,751**	**3,454**

14 Property, plant and equipment

	Freehold buildings £000	Leasehold improvements £000	Computer equipment £000	Fixtures, fittings and motor vehicles £000	Assets under construction £000	Total £000
Cost						
At 1 January 2009	190	19,573	21,689	6,127	–	47,579
Additions	–	2,610	2,636	784	–	6,030
Transfers	–	(18)	76	(58)	–	–
Disposals	–	(840)	(1,717)	(789)	–	(3,346)
Exchange differences	–	(616)	(998)	(386)	–	(2,000)
At 31 December 2009	190	20,709	21,686	5,678	–	48,263
Aggregate depreciation						
At 1 January 2009	79	13,620	16,218	3,465	–	33,382
Charge for the year	8	1,434	3,252	924	–	5,618
Transfers	–	2	10	(12)	–	–
Disposals	–	(742)	(1,700)	(776)	–	(3,218)
Exchange differences	–	(136)	(753)	(195)	–	(1,084)
At 31 December 2009	87	14,178	17,027	3,406	–	34,698
Net book value						
At 31 December 2009	**103**	**6,531**	**4,659**	**2,272**	**–**	**13,565**

	Freehold buildings £000	Leasehold improvements £000	Computer equipment £000	Fixtures, fittings and motor vehicles £000	Assets under construction £000	Total £000
Cost						
At 1 January 2008	190	15,837	17,078	3,878	758	37,741
Additions	–	4,169	2,777	1,131	7	8,084
Transfers	–	409	174	175	(758)	–
Acquisitions	–	18	17	86	–	121
Disposals	–	(1,967)	(986)	(170)	–	(3,123)
Exchange differences	–	1,107	2,629	1,027	(7)	4,756
At 31 December 2008	190	19,573	21,689	6,127	–	47,579
Aggregate depreciation						
At 1 January 2008	72	14,561	11,546	2,226	–	28,405
Charge for the year	7	663	3,748	752	–	5,170
Disposals	–	(1,965)	(961)	(161)	–	(3,087)
Exchange differences	–	361	1,885	648	–	2,894
At 31 December 2008	79	13,620	16,218	3,465	–	33,382
Net book value						
At 31 December 2008	**111**	**5,953**	**5,471**	**2,662**	**–**	**14,197**

15 Goodwill

	£000
At 1 January 2008	420,835
Acquisition – Logipard	2,074
Revision to consideration – Soisic	(1,385)
Exchange differences	146,320
At 31 December 2008	**567,844**
Revision to consideration and intangible assets – Logipard	103
Exchange differences	(51,149)
At 31 December 2009	**516,798**

During the fourth quarter of 2009, the Group tested its balance of goodwill for impairment in accordance with IAS 36, "Impairment of assets". No impairment charge was recorded as a result of this annual impairment test.

Goodwill is allocated to the Group's CGUs according to business segment. The carrying amounts of goodwill by CGU at 31 December 2009 are summarised below:

	Processor Division £000	Physical IP Division £000	Systems Design Division £000	Group £000
Goodwill relating to Artisan	122,086	366,258	–	488,344
Goodwill relating to Falanx	9,400	–	–	9,400
Goodwill relating to Axys	–	–	7,541	7,541
Goodwill relating to KEG and KSI	–	–	7,245	7,245
Goodwill relating to Logipard	2,177	–	–	2,177
Goodwill relating to other acquisitions	2,060	–	31	2,091
Goodwill at 31 December 2009	135,723	366,258	14,817	516,798
Goodwill at 31 December 2008	143,649	407,940	16,255	567,844

The recoverable amount for each CGU has been measured based on a value in use calculation.

Processor Division (PD)
The Processor Division encompasses those resources that are centred around microprocessor cores, including specific functions such as graphics IP, fabric IP, embedded software IP and configurable digital signal processing (DSP) IP.

The key assumptions in the value in use calculations were:

Period over which the directors have projected cash flows A ten-year forecast period is used with an assumed terminal growth rate after 2019 of 3% per annum. It is considered appropriate to use a ten-year forecast period to properly reflect the period over which the benefits of the acquired businesses to the Processor Division are expected to accrue.

Forecast revenue growth Revenue is forecast to grow by an amount consistent with the Group's five-year plan as well as analysts' expectations. These have proved to be reliable guides in the past and the directors believe that these estimates are appropriate. Forecast average growth is expected to be approximately 8% per annum.

Revenue attributable to the benefits afforded by owning the PIPD unit The directors believe that revenue will accrue to PD as a result of the ownership of the Physical IP Division for the following reasons:

– The development of faster and more power-efficient microprocessors as a result of collaboration between PD and PIPD engineering teams. This is expected to generate more PD licensing deals at higher prices;

– The potential for PD to win more microprocessor licensing business as a result of ARM being able to offer both processor and physical IP in-house; and

– The improvement in PD operating margins as a result of being able to transfer a number of engineering tasks to the Bangalore design centre acquired with Artisan.

15 Goodwill continued

Operating margins Operating margins have been assumed to grow steadily over the period of the calculation.

Discount rate Future cash flows are discounted in line with ARM's estimated weighted average cost of capital of approximately 10% pre-tax.

The directors are confident that the amount of goodwill allocated to PD is appropriate and that the assumptions used in estimating its fair value are appropriate. Whilst it is conceivable that a key assumption in the calculation could change, the directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying value.

Physical IP Division (PIPD)

The Physical IP Division is concerned with the building blocks necessary for translation of a circuit design into actual silicon.

The key assumptions in the value in use calculations were:

Period over which the directors have projected cash flows A ten-year forecast period is used with an assumed terminal growth rate after 2019 of 3% per annum. Given the long-term nature of the ARM licensing and royalty business model, it is considered appropriate to use a ten-year forecast period to assess the expected future cash flows to be generated from the assets under review. The Group's experience in PD indicates that the base of licences grows gradually over time as licensees outsource an increasing proportion of their physical IP needs, with royalties, which are a function of the cumulative licensing base, increasing accordingly.

Forecast revenue growth Revenue is expected to grow by approximately 15% per annum on average for the next five years, falling to 6% per annum by 2019, reflecting the uncertainty of forecasting revenues in the years further in the future. Since the acquisition of Artisan at the end of 2004, PIPD has accelerated the development of leading-edge physical IP technology. As semiconductor process geometries shrink, PIPD is expected to have more licensing opportunities across a broader range of foundries and other semiconductor companies. Royalty revenues are expected to increase going forward as a result of the growth in the installed license base, both before and after the acquisition of Artisan.

Licence revenues decreased by 20% year-on-year in 2009 and royalty revenues decreased by 10%. The decrease in revenues was largely due to the difficult economic climate experienced during 2009. Backlog, however, remained constant compared with the beginning of the year. A number of licenses for the new leading edge technologies have now been signed with the majority of the revenue expected to be recognised in 2010. The directors believe that the investment of the past few years in the technology portfolio will not only bring growth in future years to PIPD but also contribute significantly to the success of PD as the synergistic benefits of the combined technologies begin to accrue. Therefore the directors have confidence that the overall forecast growth rate attributable to PIPD is achievable.

Operating margins Operating margins are assumed to increase gradually over time to around 40% by the end of the forecast period. In 2009, PIPD made a significant loss, mostly as a result of the reduced revenues but also due to the continued level of investment in the development of leading-edge technology. Margins are expected to improve significantly in future years as licence revenues from leading-edge products gather pace and royalties increase at effectively 100% margins. Costs are expected to remain relatively flat in real terms.

This timescale is consistent with ARM's experience in developing the processor licensing and royalty model. ARM has signed over 660 processor licences over the last 19 years with less than half of these yielding royalties thus far. As royalty revenues are a function of cumulative licensing, royalty growth gathers momentum as the licensing base grows – ARM processor royalties have increased from $38 million in 2002 to $208 million in 2009.

15 Goodwill continued

Discount rate Future cash flows are discounted in line with ARM's estimated weighted average cost of capital of approximately 10% pre-tax.

The directors are confident that the amount of goodwill allocated to PIPD and the assumptions used in estimating its fair value are appropriate.

Whilst it is conceivable that a key assumption in the calculation could change, the directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying value. The overall assessment is most sensitive to any change in the forecast revenues. Although an overall compound annual growth rate of 13% is anticipated by the directors in reaching their conclusions, an annual growth rate of 9% would support the carrying value of goodwill within the division.

Systems Design Division (SDD)

The Systems Design Division is concerned with the tools and models used to create and debug software and system-on-chip (SoC) designs.

The key assumptions in the value in use calculations were:

Period over which the directors have projected cash flows A five-year forecast period is used with an assumed terminal growth rate after 2014 of 3% per annum. It is considered appropriate to use a five-year forecast period to properly reflect the weighted average period over which the benefits of the acquisitions of Axys, KEG and KSI are expected to accrue.

Forecast revenue growth Revenue is forecast to grow by approximately 8% which is consistent with the Group's five-year plan as well as analysts' expectations. These have proved to be reliable guides in the past and the directors believe that these estimates are appropriate.

Operating margins Operating margins are assumed to grow gradually to around 16% by the end of the period.

Discount rate Future cash flows are discounted in line with ARM's estimated weighted average cost of capital of approximately 10% pre-tax.

The directors are confident that the amount of goodwill allocated to SDD and the assumptions used in estimating its fair value are appropriate. Whilst it is conceivable that a key assumption in the calculation could change, the directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying value.

16 Other intangible assets

	Software £000	Patents and licences £000	In-process research and development £000	Developed technology £000	Existing agreements and customer relationships £000	Core technology £000	Trademarks £000	Order backlog £000	Total £000
Cost									
At 1 January 2009	9,639	25,430	6,497	41,823	58,762	15,760	4,949	2,183	165,043
Additions	845	–	–	–	–	–	–	–	845
Acquisition – Logipard	–	–	98	(296)	175	–	–	–	(23)
Disposals	(669)	–	–	–	–	–	–	–	(669)
Exchange differences	(228)	–	(588)	(3,062)	(5,112)	(1,456)	(458)	(201)	(11,105)
At 31 December 2009	9,587	25,430	6,007	38,465	53,825	14,304	4,491	1,982	154,091
Aggregate amortisation									
At 1 January 2009	7,914	14,417	4,744	31,579	42,033	12,677	4,414	2,183	119,961
Charge for the year	1,405	2,232	1,268	3,473	7,776	2,898	283	–	19,335
Disposals	(669)	–	–	–	–	–	–	–	(669)
Exchange differences	(200)	–	(491)	(2,666)	(3,982)	(1,271)	(421)	(201)	(9,232)
At 31 December 2009	8,450	16,649	5,521	32,386	45,827	14,304	4,276	1,982	129,395
Net book value									
At 31 December 2009	**1,137**	**8,781**	**486**	**6,079**	**7,998**	**–**	**215**	**–**	**24,696**

	Software £000	Patents and licences £000	In-process research and development £000	Developed technology £000	Existing agreements and customer relationships £000	Core technology £000	Trademarks £000	Order backlog £000	Total £000
Cost									
At 1 January 2008	8,491	16,651	4,687	29,593	42,065	11,604	3,644	1,608	118,343
Additions	636	8,779	–	–	–	–	–	–	9,415
Acquisition – Logipard	–	–	130	3,163	1,684	–	–	–	4,977
Disposals	(140)	–	–	–	–	–	–	–	(140)
Exchange differences	652	–	1,680	9,067	15,013	4,156	1,305	575	32,448
At 31 December 2008	9,639	25,430	6,497	41,823	58,762	15,760	4,949	2,183	165,043
Aggregate amortisation									
At 1 January 2008	5,785	13,954	2,484	17,135	23,690	7,013	2,410	1,608	74,079
Charge for the year	1,718	463	1,107	7,170	7,854	2,557	913	–	21,782
Disposals	(140)	–	–	–	–	–	–	–	(140)
Exchange differences	551	–	1,153	7,274	10,489	3,107	1,091	575	24,240
At 31 December 2008	7,914	14,417	4,744	31,579	42,033	12,677	4,414	2,183	119,961
Net book value									
At 31 December 2008	**1,725**	**11,013**	**1,753**	**10,244**	**16,729**	**3,083**	**535**	**–**	**45,082**

Refer to note 21 for the methods and significant assumptions applied in estimating the fair value of other intangible assets acquired as part of business combinations.

17 Accrued and other liabilities

	2009 £000	2008 £000
Accruals	40,731	25,806
Other taxation and social security	1,996	2,609
Other payables	3,961	7,231
	46,688	**35,646**

18 Financial instruments

(a) Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Financial assets

	Loans and receivables £000	Assets at fair value through the income statement £000	Available-for-sale £000	Total £000
At 31 December 2009				
Cash and cash equivalents	34,489	–	–	34,489
Short-term investments	–	–	105,524	105,524
Short-term marketable securities	–	–	1,795	1,795
Embedded derivatives	–	2,480	–	2,480
Currency exchange contracts	–	457	–	457
Trade receivables (gross of impairment provision)	55,289	–	–	55,289
Total current financial assets	89,778	2,937	107,319	200,034
Non-current available-for-sale investments – unlisted	–	–	9,432	9,432
Total financial assets	**89,778**	**2,937**	**116,751**	**209,466**
At 31 December 2008				
Cash and cash equivalents	76,502	–	–	76,502
Short-term investments	–	–	471	471
Short-term marketable securities	–	–	1,816	1,816
Embedded derivatives	–	12,298	–	12,298
Trade receivables (gross of impairment provision)	60,732	–	–	60,732
Total current financial assets	137,234	12,298	2,287	151,819
Non-current available-for-sale investments – unlisted	–	–	1,167	1,167
Total financial assets	**137,234**	**12,298**	**3,454**	**152,986**

Financial liabilities

	2009 £000	2008 £000
Liabilities at amortised cost at 31 December:		
Accounts payable	2,280	6,953
Accrued and other liabilities	46,688	35,646
	48,968	42,599
Liabilities at fair value through the income statement at 31 December:		
Currency exchange contracts	–	18,457
Total financial liabilities	**48,968**	**61,056**

18 Financial instruments continued

(b) Credit quality of financial assets

Trade debtors

On a quarterly basis, all trade debtors more than three months overdue are considered for impairment on a line-by-line basis. Either a provision is made or the lack thereof is justified, with review by senior members of the Group's finance team.

	2009 £000	2008 £000
Trade debtors (gross of impairment provision):		
Not yet due	30,255	42,899
Under 90 days overdue	18,922	13,074
Over 90 days overdue but not provided for	3,717	3,015
Fully provided for	2,395	1,744
Total	**55,289**	**60,732**

As shown above, at 31 December 2009 trade debtors less than 90 days overdue amounted to £18.9 million. Of those outstanding at 31 December 2009, £18.0 million had been collected by 30 March 2010 and £0.8 million were owed by large, established customers. Similarly, debtors more than 90 days overdue and not provided for amounted to £3.7 million of which £1.0 million had been collected by 30 March 2010 and £1.5 million was owed by large, established customers. For the remainder, discussions regarding repayment are ongoing and repayment schedules have been agreed with the customers concerned. These will be monitored on a quarterly basis in accordance with the control outlined above. No further analysis has been provided here on the quality of these debts as they are not felt to pose a material threat to the Group's future results.

As shown above, at 31 December 2009, trade debtors fully provided for amounted to £2.4 million (2008: £1.7 million). Of those provided for at 31 December 2009, £0.2 million relates to trade debtors that are between three and six months overdue (2008: £0.1 million) and £2.2 million relates to trade debtors that are over six months overdue (2008: £1.6 million).

Highly liquid financial assets

As at 31 December 2009, 91% (2008: 91%) of the Group's cash and cash equivalents, short-term investments and marketable securities were held with institutions that had either an AA rating or, in the case of UK building societies, had over £1 billion in assets.

19 Called-up share capital

	2009 £000	2008 £000
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2008: 2,200,000,000)	**1,100**	1,100

	2009		2008	
	Number of shares (000)	Value £000	Number of shares (000)	Value £000
Issued and fully paid				
At 1 January and 31 December	**1,344,056**	**672**	1,344,056	672

20 Own shares held

	Treasury stock £000	ESOP £000	Total £000
At 1 January 2009	107,963	–	107,963
Issuance of shares	(42,861)	–	(42,861)
At 31 December 2009	**65,102**	**–**	**65,102**
At 1 January 2008	89,652	348	90,000
Purchase of own shares	40,286	–	40,286
Issuance of shares	(21,975)	(348)	(22,323)
At 31 December 2008	**107,963**	**–**	**107,963**

During 2008, £40,286,000 of shares were repurchased, representing 41.2 million shares. No shares were repurchased during 2009.

At 31 December 2009, a total of 60.3 million shares (2008: 91.2 million) were held as treasury stock. At 31 December 2009, own shares held have a nominal value of 0.05 pence (2008: 0.05 pence) and in total represent 4.5% (2008: 6.8%) of called-up share capital.

21 Acquisitions

There were no acquisitions in 2009, but the following acquisition was made in 2008.

Logipard AB

On 16 December 2008, the Group purchased the entire share capital of Logipard AB (Logipard), a video IP company incorporated in Sweden for total consideration of £5.7 million, comprising £5.5 million cash consideration and £0.2 million of related acquisition expenses. This purchase has been accounted for as an acquisition.

Logipard develops power-efficient video encode and decode acceleration technologies for the mobile and consumer markets and enables ARM to bring to market the ARM® Mali™-VE multi standard video engine family of products. The acquisition adds world class video and imaging technology to the ARM portfolio, making ARM the only IP provider with the in-depth experience and understanding required to meet the market need for an entire range of system elements, from memory controllers, interconnect, application and embedded processors to graphics processors, video engines, physical IP and embedded firmware. For the reasons given above, combined with the ability to hire the entire workforce of Logipard and synergistic benefits that may arise, the Group paid a premium on the Logipard acquisition, giving rise to goodwill.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

At 31 December 2008, the accounting for the Logipard acquisition was determined on a provisional basis because the fair values assigned to the acquiree's identifiable assets and liabilities were only provisional. At 31 December 2009, final adjustments to these provisional values had been recognised as a result of completing work on the fair values of assets and liabilities acquired. As these adjustments are not considered material, they have been recognised in the current year.

21 Acquisitions continued

	Carrying value pre-acquisition £000	Fair value* £000
Cash and cash equivalents	16	16
Receivables and other debtors	556	556
Property, plant and equipment	121	121
Other intangible assets	153	4,954
Payables	(289)	(289)
Deferred revenue	(450)	(450)
Deferred tax liability	–	(1,387)
Net assets acquired	107	3,521
Goodwill		2,177
Consideration		**5,698**

* During 2009 additional expenses of £87,000 were incurred resulting in an increase to consideration. In addition, the final valuation report was received resulting in a decrease in the value of intangibles of £16,000 net of deferred tax liability. These adjustments resulted in an increase in goodwill of £103,000.

Consideration satisfied by:

	£000
Cash consideration paid	5,514
Expenses	184
	5,698

The outflow of cash and cash equivalents on the acquisition of Logipard is calculated as follows:

	£000
Cash consideration paid	5,514
Expenses paid	184
Cash acquired	(16)
Net cash outflow	**5,682**

The intangible assets acquired as part of the acquisition of Logipard can be analysed as follows:

	£000
In-process research and development	228
Developed technology	2,867
Customer relationships	1,859
Total	**4,954**

The methods and significant assumptions involved in valuing these identifiable intangible assets are described below:

In-process research and development In-process research and development of £0.2 million reflects certain research projects, that had not yet reached technological feasibility and commercial viability. The fair value assigned to in-process research and development was estimated using the discounted cash flow method with a post-tax discount rate of approximately 61%.

Developed technology Developed technology of £2.9 million comprises internally-developed technologies. At the date of acquisition, developed technologies were complete and had reached technological feasibility. Any costs incurred in the future will relate to ongoing maintenance of the technologies and will be expensed as incurred. To estimate the fair value of the internally-developed technologies, a discounted cash flow method, specifically the income approach, was used with a post-tax discount rate of 45%. Developed technologies are being amortised over an estimated useful life of five years.

Customer relationships The customer base of £1.9 million represented the fair value of existing customer contracts. To estimate their fair value, a discounted cash flow method, specifically the income approach, was used with reference to the terms of the contracts and management's estimates of the revenue which will be generated from the customer relationships. The valuation was considered in conjunction with an asset purchase made by the Group of similar contracts with the same customers at the same time as the acquisition. A post-tax discount rate of 40% was used for the valuation. Customer relationships are being amortised over an estimated useful life of five years.

22 Share-based payments
The Group has several share option schemes in current operation, whereby options over shares in the Company can be granted to employees and directors. The different schemes are described below, but all options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant, except for those options within the SAYE and ESPP schemes as detailed below. Furthermore, from 2006, the Company has issued Restricted Stock Units (RSUs) to employees instead of options which are actual share awards on vesting rather than options to buy shares at a fixed exercise price. Whilst the Company reserves the right to award options to employees going forward, the majority of awards to employees will be in RSUs.

Under the UK Inland Revenue Executive Approved Share Option Plan (the "Executive Scheme"), the Company may grant options to employees meeting certain eligibility requirements. Options under the Executive Scheme are exercisable between three and ten years after their issue, after which time the options expire.

Under the Company's Unapproved Scheme (the "Unapproved Scheme"), for which it has not sought approval from the UK tax authorities, options are exercisable one to seven years after their issue, after which time the options expire. The Company also operates the US ISO Scheme, which is substantially the same as the Unapproved Scheme, the main difference being that the options are exercisable one to five years after their issue. Under both of these schemes options are exercisable as follows: 25% maximum on first anniversary, 50% maximum on second anniversary, 75% maximum on third anniversary, 100% maximum on fourth anniversary. Various options to directors under the Unapproved Scheme have certain performance criteria attached, which if met are exercisable after three years, otherwise they will become exercisable after seven years.

There are further schemes for our French and Belgian employees (the "French Scheme" and the "Belgian Scheme"). In the French Scheme, options are exercisable between four and seven years after their issue, whilst in the Belgian Scheme, options are exercisable from 1 January following the third anniversary after their issue, up to seven years from issue.

Upon the acquisition of Artisan in 2004, the Company assumed the share schemes of Artisan existing at acquisition. The schemes remained substantially the same as prior to the acquisition, other than the options became options to purchase shares in ARM Holdings plc instead of Artisan Components Inc. The number and value of options were amended in line with the conversion ratio as detailed in the merger agreement. The schemes assumed were the "1993 Plan", the "1997 Plan", the "2000 Plan", the "2003 Plan", the "Director Plan", the "Executive Plan" and the "ND00 Plan".

Under each plan, there are multiple vesting templates and vesting periods. The majority of the options were already vested upon acquisition, and the most common template was 25% vesting after one year, and then 6.25% vesting each quarter thereafter, until 100% vest after four years. Some options vest on a monthly basis, and some vest over five years. All options lapse ten years from the date of grant.

The Company also offers savings-related share option schemes (SAYE) for all non-US employees and executive directors of the Group. The number of options granted is related to the value of savings made by the employee. The period of savings is three or five years. The option price for grants made in 2009, 2008 and 2007 was set at 80% of the market share price prior to the announcement of the grant, but in previous years was set at 85%, and the right to exercise normally only arises for a six-month period once the savings have been completed. In 2007, the Company commenced a new savings-related option scheme for US employees, namely the Employee Share Purchase Plan (ESPP). The number of options granted is related to the value of savings made by the employee. The period of savings is six months, with the option price being at 85% of the lower of the market share price at the beginning and end of the scheme.

The main RSU awards (to employees in all jurisdictions other than France) vest similarly to the unapproved scheme above, namely 25% on each anniversary over four years. RSU awards to our French employees vest 50% after two years, and then a further 25% after three and four years.

Additionally, the Company operates a Deferred Annual Bonus plan (DAB). Under the DAB, which is for directors and selected senior management within the Group, participants are required to defer 50% of any related annual bonus into shares on a compulsory basis. These shares will be deferred for three years, and then a further matching award will be made depending on the achievement of an EPS performance condition over that time. The Company also operates the Long Term Incentive Plan (LTIP), also for directors and selected senior management, whereby share awards are made and vest depending on the Company's TSR performance compared to two comparator groups over the three-year performance period.

22 Share-based payments continued

As disclosed in note 4, staff expenses arising from these share-based compensation schemes of £19.0 million (2008: £15.4 million) were charged to the income statement in the year. This is in line with the Group's policies for recognition and measurement of the costs associated with these remuneration schemes as outlined in note 1.

The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model, except for the ESPP whose fair value is the intrinsic value of the award at the date of vest. The following assumptions for each option grant during 2008 and 2009 were as follows:

Grant date	16 Feb 2009	26 Jun 2009	17 Aug 2009	16 Feb 2008	27 Jun 2008	16 Aug 2008
Scheme	ESPP	SAYE	ESPP	ESPP	SAYE	ESPP
Share price at grant date	£0.965	£1.14	£1.24	£0.9825	£0.8607	£1.1025
Exercise price	£0.8203	£0.854	£0.816	£0.8351	£0.81	£0.8351
Number of employees	275	183	304	305	325	297
Shares under option	1,368,689	1,175,528	1,170,412	1,034,055	2,871,580	1,007,592
Vesting period (years)	–	3–5	–	–	3–5	–
Expected volatility	–	40%-44%	–	–	37%-38%	–
Expected life (years)	–	3–5	–	–	3–5	–
Risk free rate	–	0.5%	–	–	5.0%	–
Dividend yield	–	1.93%	–	–	2.32%	–
Fair value per option	£0.1447	£0.416–£0.433	£0.424	£0.1474	£0.243–£0.302	£0.2674

The fair value of RSUs, LTIP and DAB awards granted was estimated on the date of grant using the Black-Scholes option pricing model. As all are share awards with no exercise price, all awards have been deemed to have an exercise price of £0.0000001 in the Black-Scholes model. The following assumptions for each grant during 2008 and 2009 were as follows:

Grant date	8 Feb 2009	8 Feb 2009	8 Feb 2009	8 Feb 2009	8 May 2009
Scheme	DAB	RSU	French RSU	LTIP	RSU
Share price at grant date	£0.9975	£0.9975	£0.9975	£0.9975	£1.125
Number of employees	41	1,534	76	42	54
Shares awarded	1,727,602	13,942,683	750,214	5,430,827	477,000
Vesting period (years)	–	1–4	2–4	3	1–4
Expected volatility	43%	40%-55%	40%-49%	43%	41%-53%
Expected life (years)	3	1–4	2–4	3	1–4
Risk free rate	1.0%	1.0%	1.0%	1.0%	0.5%
Dividend yield	2.21%	2.21%	2.21%	2.21%	1.96%
Fair value per option	£0.934	£0.913–£0.976	£0.913–£0.954	£0.934	£1.04–£1.103

Grant date	8 May 2009	13 Aug 2009	13 Aug 2009	12 Nov 2009	12 Nov 2009
Scheme	French RSU	RSU	French RSU	RSU	French RSU
Share price at grant date	£1.125	£1.246	£1.246	£1.586	£1.586
Number of employees	3	35	2	26	2
Shares awarded	19,500	215,450	6,000	157,550	18,000
Vesting period (years)	2–4	1–4	2–4	1–4	2–4
Expected volatility	41%-50%	41%-50%	41%-50%	40%-50%	41%-50%
Expected life (years)	2–4	1–4	2–4	1–4	2–4
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%
Dividend yield	1.96%	1.94%	1.94%	1.53%	1.53%
Fair value per option	£1.04–£1.082	£1.153–£1.222	£1.153–£1.199	£1.492–£1.562	£1.492–£1.538

Grant date	1 Dec 2009
Scheme	RSU
Share price at grant date	£1.547
Number of employees	4
Shares awarded	20,500
Vesting period (years)	1–4
Expected volatility	39%-50%
Expected life (years)	1–4
Risk free rate	0.5%
Dividend yield	1.56%
Fair value per option	£1.453–£1.523

22 Share-based payments continued

Grant date	8 Feb 2008	8 Feb 2008	8 Feb 2008	8 Feb 2008	4 Jun 2008
Scheme	DAB	RSU	French RSU	LTIP	RSU
Share price at grant date	£0.95	£0.95	£0.95	£0.95	£1.0297
Number of employees	31	1,516	67	38	41
Shares awarded	861,908	7,992,657	368,157	4,386,320	281,391
Vesting period (years)	–	1–4	2–4	3	1–4
Expected volatility	34%	34%–42%	34%–36%	34%	36%–48%
Expected life (years)	3	1–4	2–4	3	1–4
Risk free rate	5.25%	5.25%	5.25%	5.25%	5.00%
Dividend yield	2.11%	2.11%	2.11%	2.11%	1.94%
Fair value per option	£0.892	£0.873–£0.93	£0.873–£0.911	£0.892	£0.953–£1.01

Grant date	4 Jun 2008	13 Aug 2008	1 Sep 2008	1 Dec 2008	1 Dec 2008
Scheme	French RSU	RSU	RSU	RSU	French RSU
Share price at grant date	£1.0297	£1.09	£1.16	£0.90	£0.90
Number of employees	1	62	17	67	4
Shares awarded	2,277	489,843	122,000	446,889	16,500
Vesting period (years)	2–4	1–4	1–4	1–4	2–4
Expected volatility	36%–39%	37%–50%	37%–50%	39%–59%	39%–47%
Expected life (years)	2–4	1–4	1–4	1–4	2–4
Risk free rate	5.00%	5.00%	5.00%	3.00%	3.00%
Dividend yield	1.94%	2.02%	1.90%	2.44%	2.44%
Fair value per option	£0.953–£0.99	£1.005–£1.068	£1.075–£1.138	£0.816–£0.878	£0.816–£0.857

The expected volatility was primarily based upon historical volatility adjusted for past one-time events that are not expected to re-occur. The expected life is the expected period to exercise.

A reconciliation of option and share award movements over the year to 31 December 2009 is shown below. Share awards do not have an exercise price and therefore the reconciliation below shows only the number of awards, with no corresponding weighted average exercise prices.

	2009			2008		
	Options Number	Weighted average exercise price	RSUs/ LTIP/DAB Number	Options Number	Weighted average exercise price	RSUs/ LTIP/DAB Number
Outstanding at 1 January	62,053,652	£1.057	28,871,631	75,229,489	£1.113	22,683,544
Granted	3,714,629	£0.830	22,862,829	4,913,227	£0.820	14,967,942
Forfeited	(1,682,666)	£1.180	(1,335,190)	(4,812,171)	£1.223	(1,165,646)
Lapsed	(6,266,711)	£1.958	(1,295,244)	(3,197,174)	£3.356	(1,296,874)
Exercised	(22,956,142)	£0.831	(7,882,985)	(10,079,719)	£0.554	(6,317,335)
Outstanding at 31 December	**34,862,762**	**£1.013**	**41,221,041**	**62,053,652**	**£1.057**	**28,871,631**
Exercisable at 31 December	**29,090,453**	**£1.021**	**–**	**52,523,338**	**£1.049**	**–**

The following options over ordinary shares were in existence at 31 December:

2009 Exercise price (£)	Number outstanding	Weighted average exercise price (£)	Weighted average remaining life Expected	Weighted average remaining life Contractual
Outstanding options:				
0.19 – 0.45	5,429,016	0.28	0.76	1.55
0.47 – 0.9475	9,602,312	0.69	2.13	3.49
1.005 – 1.055	6,857,892	1.05	0.98	2.20
1.0575 – 1.25	6,598,545	1.23	0.72	1.34
1.325 – 7.738	6,374,997	1.85	1.07	2.59
Total	**34,862,762**	**1.01**	**1.23**	**2.36**
Outstanding RSU/LTIP/DAB awards:				
0.00 (RSUs)	25,795,320	–	1.33	1.33
0.00 (LTIP)	12,099,901	–	1.32	1.32
0.00 (DAB)	3,325,820	–	1.36	1.36
Total	**41,221,041**	**–**	**1.33**	**1.33**

22 Share-based payments continued

2008

Exercise price (£)	Number outstanding	Weighted average exercise price (£)	Weighted average remaining life Expected	Weighted average remaining life Contractual
Outstanding options:				
0.1125 – 0.45	11,122,672	0.33	1.03	2.16
0.46 – 0.9475	12,109,291	0.67	2.53	4.36
1.005 – 1.055	15,597,167	1.05	1.15	2.69
1.0575 – 1.25	12,350,534	1.24	1.34	1.91
1.325 – 7.738	10,873,988	2.04	1.71	2.43
Total	**62,053,652**	**1.06**	**1.53**	**2.72**
Outstanding RSU/LTIP/DAB awards:				
0.00 (RSUs)	18,070,218	–	1.39	1.39
0.00 (LTIP)	9,115,836	–	1.34	1.34
0.00 (DAB)	1,685,577	–	1.60	1.60
Total	**28,871,631**	**–**	**1.39**	**1.39**

23 Capital and other financial commitments

	2009 £000	2008 £000
Contracts placed for future capital expenditure not provided in the financial statements	**778**	**204**

24 Operating lease commitments – minimum lease payments

At 31 December 2009, the Group had commitments under non-cancellable operating leases as follows:

	2009			2008		
	Land and buildings £000	Other £000	Total £000	Land and buildings £000	Other £000	Total £000
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:						
Within one year	5,348	16,357	21,705	6,772	14,612	21,384
Later than one year and less than five years	14,759	14,544	29,303	21,401	32,515	53,916
After five years	3,263	–	3,263	5,907	–	5,907
At 31 December	**23,370**	**30,901**	**54,271**	**34,080**	**47,127**	**81,207**

25 Financial contingencies

Guarantees

It is common industry practice for licensors of technology to offer to indemnify their licensees for loss suffered by the licensee in the event that the technology licensed is held to infringe the intellectual property of a third party. Consistent with such practice, the Group provides such indemnification to its licensees but subject, in all cases, to a limitation of liability. The obligation for the Group to indemnify its licensees is subject to certain provisos and is usually contingent upon a third party bringing an action against the licensee alleging that the technology licensed by the Group to the licensee infringes such third party's intellectual property rights. The indemnification obligations typically survive any termination of the licence and will continue in perpetuity.

The Group does not provide for any such guarantees unless it has received notification from the other party that they are likely to invoke the guarantee. The provision is made if both of the following conditions are met: (i) information available prior to the issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements; and (ii) the amount of the liability can be reasonably estimated. Any such provision is based upon the directors' estimate of the fair value of expected costs of any such claim.

26 Related party transactions

During the year, the Group received funding for SOI technology development of £1,033,000 (2008: £1,570,000) from SOI TEC Silicon On Insulator Technologies SA (Soitec), a company of which Doug Dunn, Group Chairman, is a non-executive director. No amounts were outstanding from Soitec in relation to this funding at either 31 December 2009 or 2008. The Group also invoiced £409,000 (2008: £nil) to Soitec in relation to an IP licence which was fully outstanding at the year-end (2008: £nil). Furthermore, the Group was invoiced £390,000 (2008: £387,000) by Soitec in relation to licence income from the two parties' ongoing collaborative agreement to develop SOI technology. Amounts owed to Soitec at 31 December 2009 in relation to this agreement were £390,000 (2008: £36,000).

In a previous year, the Group licensed IP technology to Netronome Systems Inc., a company of which John Scarisbrick (a non executive director of the Group) is Chairman. In the year, £281,000 (2008: £757,000) was invoiced and £139,000 was outstanding at 31 December 2009 (2008: £244,000).

There were no other related party transactions during 2009 which require disclosure.

Key management compensation is disclosed in note 3.

27 Post-balance sheet events

After the year-end, the directors proposed payment of a final dividend in respect of 2009 of 1.45 pence per share. Subject to shareholder approval, the final dividend will be paid on 19 May 2010 to shareholders on the register on 30 April 2010. The final dividend has not been recognised as a distribution during the year ended 31 December 2009.

28 Principal subsidiaries and associates

Details of principal subsidiary undertakings are shown below. Not all subsidiaries are included as the list would be excessive in length.

Name of undertaking	Country of registration	Principal activity	Proportion of total nominal value of issued shares held
ARM Limited	England and Wales	Marketing, research and development of RISC-based microprocessors and physical IP components	100*
ARM Inc.	US	Marketing, research and development of RISC-based microprocessors and physical IP components	100
ARM KK	Japan	Marketing of RISC-based microprocessors and physical IP	100
ARM Korea Limited	South Korea	Marketing of RISC-based microprocessors and physical IP	100
ARM France SAS	France	Marketing and development of RISC-based microprocessors and physical IP	100
ARM Belgium NV	Belgium	Development of data engine microprocessors	100
ARM Norway AS	Norway	Development of graphics IP	100
ARM Sweden AB	Sweden	Development of video IP	100
ARM Germany GmbH	Germany	Marketing and development of RISC-based microprocessors and physical IP, integrated processor modelling solutions and microcontroller tools	100
ARM Embedded Technologies Pvt. Ltd.	India	Marketing, research and development of RISC-based microprocessors and physical IP	100
ARM Physical IP Asia Pacific Pte. Ltd.	Singapore	Marketing of RISC-based microprocessors and physical IP	100
ARM Taiwan Limited	Taiwan	Marketing of RISC-based microprocessors and physical IP	100
ARM Consulting (Shanghai) Co. Ltd.	PR China	Marketing of RISC-based microprocessors and physical IP	100

* The Company itself owns less than 1% of the share capital of ARM Limited, the remaining shares are held indirectly through ARM Finance UK Limited and ARM Finance UK Three Limited. Both ARM Finance UK Limited and ARM Finance UK Three Limited are 100% owned within the Group.

Nominees of the Company hold 100% of the ordinary share capital of ARM Employee Benefit Trustee Ltd, a company which acts as trustee to the Group's ESOP.

Company balance sheet/UK GAAP
As at 31 December

	Notes	2009 £000	2008 £000
Fixed assets			
Investments	4	563,686	544,685
Current assets			
Debtors	5	40,702	118
Cash at bank and in hand		172	86
		40,874	204
Creditors: amounts falling due within one year	6	(398)	(128,875)
Net current assets/(liabilities)		**40,476**	**(128,671)**
Total assets less current liabilities		**604,162**	**416,014**
Net assets		**604,162**	**416,014**
Capital and reserves			
Called-up share capital	7	672	672
Option reserve	8	61,474	61,474
Profit and loss reserve	8	542,016	353,868
Equity shareholders' funds	9	**604,162**	**416,014**

The financial statements on pages 100 to 106 were approved by the board of directors on 30 March 2010 and were signed on its behalf by:

Doug Dunn, Chairman

Notes to the financial statements/UK GAAP

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. A summary of the more important accounting policies, which have been consistently applied and reviewed by the board of directors in accordance with Financial Reporting Standard (FRS) 18, "Accounting policies", is set out below:

Basis of accounting The financial statements are prepared in accordance with the historical cost convention, as modified for fair value in relation to share-based payments.

Investments in subsidiaries Investments in subsidiaries are initially recorded at cost. Where an acquisition satisfies the provisions of section 612 of the Companies Act 2006 for merger relief, the investment is stated at the nominal value of shares issued plus the fair value of any other consideration.

Cash flow statement The Company has taken advantage of the exemption in FRS 1 Revised 1996 "Cash flow statements" which provides that where a company is a member of a group and a consolidated cash flow statement is published, the company does not have to prepare a cash flow statement.

Foreign currency Transactions denominated in foreign currencies have been translated into sterling at actual rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated at rates ruling at the balance sheet date. Exchange differences have been included in operating profit.

Taxation Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial instruments The Company does not have any financial instruments, other than intercompany payables and receivables and cash. Due to the short-term nature of these balances, the Company considers the fair value of these items to equal the carrying value. Because the Company is included in the consolidated financial statements of the ARM Holdings plc group which are publicly available, and the financial disclosures required by FRS 29 are in those financial statements, no disclosure has been presented in these financial statements.

Share schemes The Company issues equity-settled share-based payments, including an LTIP, to certain employees of subsidiary undertakings. In accordance with FRS 20, equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the accounts of the subsidiary companies on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

The Company operates Save As You Earn (SAYE) schemes in the UK and an Employee Share Purchase Plan (ESPP) in the US. Options under the SAYE scheme granted in 2007, 2008 and 2009 were at a 20% discount to market price of the underlying shares on the date of announcement of the scheme, whereas for all prior years was at a 15% discount. The UK SAYE schemes are approved by the Inland Revenue, which stipulates that the saving period must be at least 36 months.

The Company has taken advantage of the exemption available, and has applied the provisions of FRS 20 only to those options granted after 7 November 2002 and which were outstanding at 31 December 2004. The Company does not have any employees and as such, in accordance with UITF 44, all share-based compensation has been recorded as capital contributions to subsidiaries.

Treasury shares The Company has a share buyback programme under which the Company is able to purchase its own shares and hold them as treasury shares. These shares will be used to satisfy employee share option exercises and other share awards. In accordance with FRS 25, the Company recognises these shares at cost as a deduction in arriving at shareholders' funds.

2 Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation, including dividends receivable and before dividends payable was £179,023,000 (2008: loss of £1,424,000). The Company has no employees; all six executive directors have contracts of service with ARM Limited, a subsidiary of the Company. All emoluments of these directors are paid by ARM Limited and are disclosed in the remuneration report within these financial statements. Audit fees are disclosed in note 5 to the consolidated financial statements on page 79.

3 Dividends paid and proposed

	2009 £000	2008 £000
Final dividend paid of 1.32 pence per ordinary share in respect of 2008 (2008: 1.2 pence in respect of 2007)	16,634	15,267
Interim dividend paid of 0.97 pence (2008: 0.88 pence) per ordinary share	12,327	11,116
	28,961	**26,383**

60,321,361 shares were held as treasury stock by ARM Holdings plc at 31 December 2009. Any shares held in treasury at the record date for a dividend will be waived by the Company.

The directors have recommended the payment of a final dividend of 1.45 pence per share in respect of 2009 (estimated total cost of £19.0 million), bringing the total dividend payable in respect of 2009 (including the interim of 0.97 pence per share) to 2.42 pence per share. This will be paid to shareholders after approval by the shareholders at the 2010 AGM.

4 Fixed asset investments

The cost and net book value of interests in Group undertakings held by the Company was £563,686,000 at 31 December 2009 and £544,685,000 at 31 December 2008. The Company took advantage of merger relief in 2004 and did not record the premium on the issue of shares for the acquisition of Artisan Components Inc. (now ARM Inc.) and thus did not record the premium within the value of the investment in the Company balance sheet at that time.

	Investments in subsidiary undertakings £000
Cost and net book value	
At 1 January 2009	544,685
Capital contributions arising from FRS 20 charges	19,001
At 31 December 2009	**563,686**

Where options over the Company's shares have been issued to the employees of subsidiary undertakings, the fair value of employee services performed (equal to the FRS 20 charge) has been recorded as a capital contribution.

Interests in Group undertakings Details of subsidiary undertakings are as follows:

Name of undertaking	Country of registration	Description of shares held	Proportion of nominal value of issued shares held
ARM Limited	England and Wales	Ordinary £1 shares	less than 0.01%
ARM Finance UK Limited	England and Wales	Ordinary $1 shares	100%

The principal activity of ARM Limited is the marketing, research and development of RISC-based microprocessors. The remaining shares in ARM Limited were held at the balance sheet date by ARM Finance UK Limited (AFL) and ARM Finance UK Three Limited (AFL3) (with AFL3 itself being an indirect wholly owned subsidiary of AFL). The principal activities of both AFL and AFL3 are as intermediate holding companies.

Nominees of the Company hold 100% of the ordinary share capital of ARM Employee Benefit Trustee Ltd, a company which acts as trustee to the Group's ESOP.

5 Debtors

	2009 £000	2008 £000
Amounts owed by Group undertakings	40,153	–
Prepayments and accrued income	549	118
	40,702	**118**

6 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Amounts owed to Group undertakings	–	128,505
Accruals and deferred income	398	370
	398	**128,875**

7 Called-up share capital

	2009 £000	2008 £000
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2008: 2,200,000,000)	**1,100**	**1,100**
Allotted, called-up and fully paid		
1,344,055,696 ordinary shares of 0.05 pence each (2008: 1,344,055,696)	**672**	**672**

Share options and awards The Company had the following options and awards outstanding over ordinary shares of 0.05 pence at 31 December 2009:

	Year of grant	Number of options	Range of exercise prices £	Weighted average exercise price £	Latest date of exercise
Executive Scheme	2000	307,474	6.136–7.738	6.5922	21 May 2010
	2001	446,190	2.84–3.75	3.3738	5 November 2011
	2002	703,022	2.465	2.465	18 April 2012
	2003	208,847	0.4375	0.4375	29 January 2013
	2004	311,406	1.25	1.25	29 January 2014
	2005	187,419	1.055	1.055	3 February 2015
		2,164,358		2.7461	
Unapproved Scheme	2003	333,125	0.4375–1.1475	0.4515	4 November 2010
	2004	3,580,656	0.9475–1.25	1.2407	21 October 2011
	2005	3,891,491	1.005–1.185	1.0653	30 October 2012
	2006	1,885,092	1.16–1.36	1.3237	19 November 2013
		9,690,364		1.1593	
Unapproved Performance Scheme	2004	1,616,000	1.25	1.25	30 January 2011
	2005	2,620,853	1.055	1.055	4 February 2012
	2006	2,445,284	1.325	1.325	1 February 2013
		6,682,137		1.2010	
US ISO Scheme	2005	329,125	1.005–1.185	1.1010	30 October 2010
	2006	572,560	1.1875–1.36	1.3241	31 August 2011
		901,685		1.2426	
French Scheme	2004	248,700	0.9475–1.25	1.2435	21 October 2011
	2005	195,886	1.0425–1.185	1.0646	30 October 2012
	2006	98,250	1.325–1.36	1.3297	3 May 2013
		542,836		1.1946	
Belgian Scheme	2006	2,500	1.1875	1.1875	31 August 2013
1993 Plan	2000	440,111	0.27–0.39	0.3249	17 August 2010
	2001	1,226,939	0.24–0.25	0.2497	4 November 2011
	2002	1,107,686	0.27–0.60	0.4081	30 December 2012
	2003	778,478	0.48–0.50	0.4992	27 February 2013
		3,553,214		0.3631	
2000 Plan	2001	2,073,183	0.22–0.28	0.2249	30 August 2011
	2002	152,938	0.24–0.27	0.2523	29 August 2012
		2,226,121		0.2268	

7 Called-up share capital continued

	Year of grant	Number of options	Range of exercise prices £	Weighted average exercise price £	Latest date of exercise
2003 Plan	2003	1,730,635	0.47–0.65	0.5034	22 October 2013
	2004	2,943,054	0.55–1.01	0.7019	29 November 2014
		4,673,689		0.6284	
ND00 Plan	2000	57,175	0.19	0.19	7 August 2010
	2001	37,528	0.37	0.37	13 August 2011
	2002	43,282	0.37	0.37	2 July 2012
	2003	174,452	0.51	0.51	18 February 2013
		312,437		0.4152	
SAYE	2005	45,058	0.9095	0.9095	31 January 2011
	2006	34,759	1.0264	1.0264	31 January 2012
	2007	331,658	1.104	1.104	31 January 2013
	2008	2,536,618	0.81	0.81	31 January 2014
	2009	1,165,328	0.854	0.854	31 January 2015
		4,113,421		0.8491	
Total options		**34,862,762**	**0.19–7.738**	**1.0134**	

	Year of grant	Number of share awards	Latest vest date
RSU	2006	1,356,173	20 November 2010
	2007	3,256,283	12 November 2011
	2008	5,964,813	1 December 2012
	2009	13,857,305	1 December 2013
		24,434,574	
French RSU	2006	81,400	20 November 2010
	2007	128,598	12 November 2011
	2008	373,434	1 December 2012
	2009	777,314	12 November 2013
		1,360,746	
LTIP	2007	2,639,408	February 2010
	2008	4,191,315	February 2011
	2009	5,269,178	February 2012
		12,099,901	
DAB	2007	847,341	February 2010
	2008	802,858	February 2011
	2009	1,675,621	February 2012
		3,325,820	
Total awards		**41,221,041**	
Total options and awards		**76,083,803**	

7 Called-up share capital continued

Under the UK Inland Revenue Executive Approved Share Option Plan (the "Executive Scheme"), the Company may grant options to directors and employees meeting certain eligibility requirements. Options under the Executive Scheme are exercisable between three and ten years after their issue, after which time the options expire.

Under the Company's Unapproved Scheme (the "Unapproved Scheme"), for which it has not sought approval from the UK tax authorities, options are exercisable one to seven years after their issue, after which time the options expire. The Company also operates the US ISO Scheme, which is substantially the same as the Unapproved Scheme, the main difference being that the options are exercisable one to five years after their issue. Under both of these schemes options are exercisable as follows: 25% maximum on first anniversary, 50% maximum on second anniversary, 75% maximum on third anniversary, 100% maximum on fourth anniversary. Various options to directors under the Unapproved Scheme have certain performance criteria attached, which if met are exerciseable after three years, otherwise they will become exerciseable after seven years.

There are further schemes for our French and Belgian employees (the "French Scheme" and the "Belgian Scheme"). In the French Scheme, options are exercisable between four and seven years after their issue, whilst in the Belgian Scheme, options are exercisable from 1 January following the third anniversary after their issue, up to seven years from issue.

Upon the acquisition of Artisan in 2004, the Company assumed the share schemes of Artisan existing at acquisition. The schemes remained substantially the same as prior to the acquisition, other than the options became options to purchase shares in ARM Holdings plc instead of Artisan Components Inc. The number and value of options were amended in line with the conversion ratio as detailed in the merger agreement. The schemes assumed were the "1993 Plan", the "2000 Plan", the "2003 Plan" and the "ND00 Plan".

Under each plan, there are multiple vesting templates and vesting periods. The majority of the options were already vested upon acquisition, and the most common template was 25% vesting after one year, and then 6.25% vesting each quarter thereafter, until 100% vest after four years. Some options vest on a monthly basis, and some vest over five years. All options lapse ten years from the date of grant.

The Company also operates savings-related share option schemes (SAYE) for all employees and executive directors of the Group, except for ARM Inc. The number of options granted is related to the value of savings made by the employee. The period of savings is either three or five years. The option price for grants made in 2007 and 2008 was set at 80% of the market share price prior to the announcement of the scheme, but in previous years was set at 85%, and the right to exercise normally only arises for a six-month period once the savings have been completed. In 2007, the Company commenced a new savings-related option scheme for employees of ARM Inc., namely the Employee Share Purchase Plan (ESPP). The number of options granted is related to the value of savings made by the employee. The period of savings is six months, with the option price being at 85% of the lower of the market share price at the beginning and end of the scheme.

The Company also issues restricted stock units (RSUs) to employees which are actual share awards on vesting rather than options to buy shares at a fixed exercise price. The main RSU awards (to employees in all jurisdictions other than France) vest similarly to the unapproved scheme above, namely 25% on each anniversary over four years. RSU awards to our French employees vest 50% after two years, and then a further 25% after three and four years. Whilst the Company reserves the right to award options to employees going forward, the majority of awards to employees will be in RSUs.

Additionally, the Company operates a Deferred Annual Bonus plan (DAB). Under the DAB, which is for directors and selected senior management within the Group, participants are required to defer 50% of any related annual bonus into shares on a compulsory basis. These shares will be deferred for three years, and then a further matching award will be made depending on the achievement of an EPS performance condition over that time. The Company also operates the Long Term Incentive Plan (LTIP), also for directors and selected senior management, whereby share awards are made and vest depending on the Company's TSR performance compared to two comparator groups over the three-year performance period.

For disclosures relating to the grants in the year and fair value assumptions, reconciliations of opening to closing option balances and related items, please refer to note 22 in the IFRS accounts within these financial statements.

Notes to the financial statements/UK GAAP continued

8 Reserves

	Option reserve £000	Profit and loss reserve £000
At 1 January 2009	61,474	353,868
Proceeds on issue of treasury shares on exercise of share options	–	19,085
Credit in respect of FRS 20 employee share scheme charges	–	19,001
Profit for the financial year	–	150,062
At 31 December 2009	**61,474**	**542,016**

The Company has taken advantage of merger relief and not recorded the premium on the issue of shares for the acquisition of Artisan Components Inc. (now ARM Inc.). The option reserve represents the fair value of options granted on the acquisition of Artisan Components Inc. in 2004.

The Company considers the option reserve as non-distributable. Within the profit and loss account is £101,225,000 of credits in respect of FRS 20 employee share scheme charges in respect of services performed by employees of subsidiary undertakings and recorded as a capital contribution. The Company also considers these credits as non-distributable. As such, £440,791,000 of the profit and loss account is deemed distributable.

The Company did not undertake any share buy-backs during 2009. The quantum and frequency of share re-purchases is not predetermined and will take into account prevailing market conditions, the short- to medium-term cash needs of the business and the level of employee share-based remuneration going forward. In 2008, a total of 41.2 million shares were re-purchased from the market at a cost of £40,286,000. At 31 December 2009, there were 60,321,361 (2008: 91,160,488) shares in the Company still held from these purchases with a market value of £107,070,000 (2008: £78,854,000).

Offset within retained earnings is an amount of £65,102,000 (2008: £107,963,000) representing the cost of own shares held, being 60,321,361 (2008: 91,160,488) shares in the Company. These shares are expected to be used in part for the benefit of the Group's employees and directors to satisfy share options, restricted stock units (RSUs) and conditional share awards in future periods

9 Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
Profit/(loss) attributable to shareholders	179,023	(1,424)
Equity dividends payable	(28,961)	(26,383)
	150,062	(27,807)
Purchase of treasury shares	–	(40,286)
Proceeds on issue of treasury shares on exercise of share options	19,085	5,581
Credit in respect of FRS 20 employee share scheme charges recorded as capital contributions	19,001	15,409
Net addition to/(reduction in) shareholders' funds	188,148	(47,103)
Opening shareholders' funds	416,014	463,117
Closing shareholders' funds	**604,162**	**416,014**

10 Capital commitments

The Company had no capital commitments at 31 December 2009 and 2008.

11 Financial commitments and contingencies

At 31 December 2009 and 2008 the Company had no annual commitments under non-cancellable operating leases.

12 Related party transactions

The Company has taken advantage of the exemption from disclosure available to parent companies under FRS 8, "Related party disclosures", where transactions and balances between Group entities have been eliminated on consolidation.

Independent auditors' report to the members of ARM Holdings plc

We have audited the parent company financial statements of ARM Holdings plc for the year ended 31 December 2009 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities included in the directors' report, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of ARM Holdings plc for the year ended 31 December 2009.

James Southgate (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
30 March 2010

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