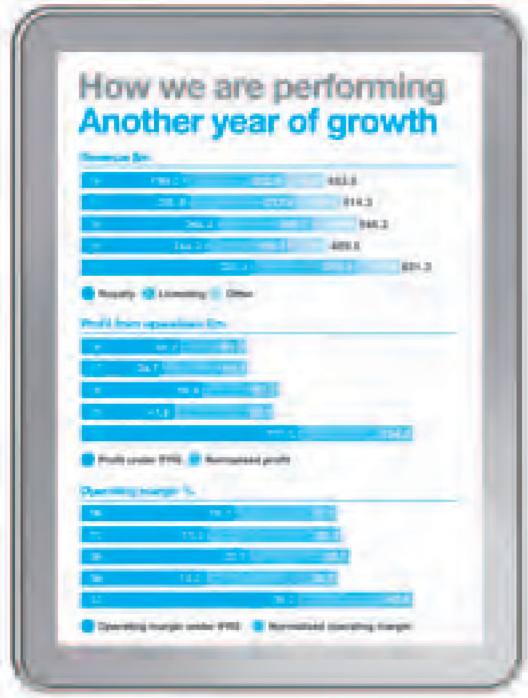
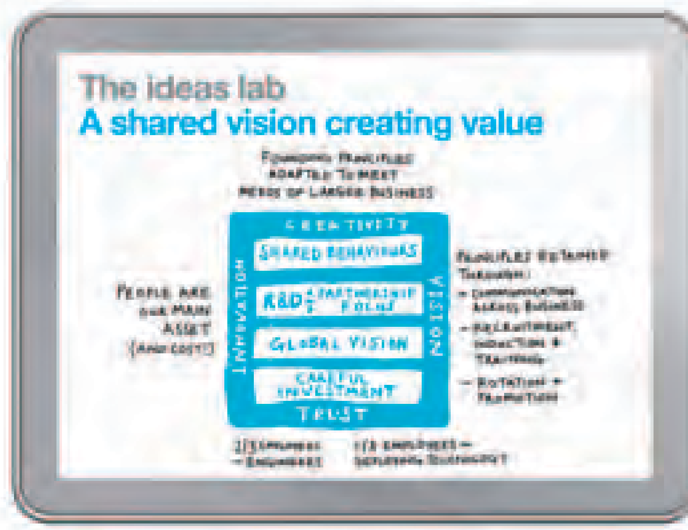
ARM®





20/20 vision

20 years of growth delivering future opportunities

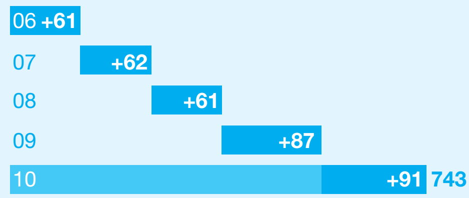
Annual Report and Accounts 2010

Key Performance Indicator | **Context** | **Performance**

Building the base of licences that will drive future royalties

ARM's royalty revenue opportunity is driven by the cumulative number of licences and partners utilising our technology.

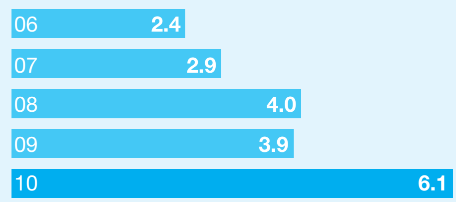
ARM licences



Growing the number of ARM processor-based chips

The royalty revenue generated from the sale of ARM processor-based chips is helping to drive our profitability.

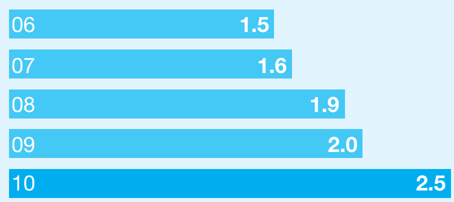
Shipments of ARM processor-based chips bn



Increasing the value that ARM gets for every mobile handset sold

A typical smartphone contains more ARM processor-based chips than a voice-only phone. As smartphone shipments have become a higher proportion of the overall handset market, so the average number of ARM processor-based chips per phone has increased.

Average ARM processor-based chips per phone



Increasing ARM's penetration in target end-markets

ARM estimates that the total addressable embedded chip market in 2010 amounted to 22 billion. Only three billion of those chips went into mobile phones, illustrating the much larger opportunity in consumer electronics, real-time processing and embedded computing.

Market penetration

Year	Hard disk drives	Digital TVs	Micro controllers
06	40%	15%	1%
07	50%	20%	2%
08	55%	25%	4%
09	65%	30%	6%
10	85%	35%	10%

Developing new technology to generate future royalty streams

ARM believes that we can provide the semiconductor industry with complementary technologies utilising the same business model; generating additional licence fees and more royalty streams.

Cumulative licences

Year	Multimedia licences	Physical IP platforms
06	2	40
07	6	50
08	14	60
09	28	68
10	39	77

Investing in ARM's product development capability and operational execution

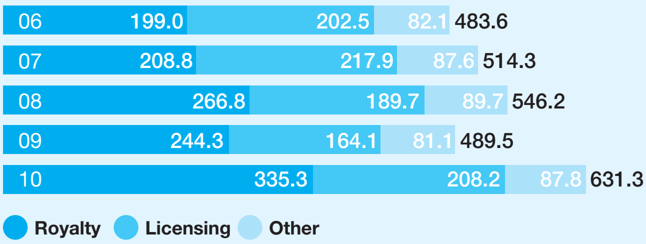
Our people are our strength for designing the next generation of technology, and for growing and maintaining the ARM partnership.

Number of employees

Year	Employees	Engineers	Percentage
06	1,659	1,049	63%
07	1,728	1,102	64%
08	1,740	1,071	62%
09	1,710	1,024	60%
10	1,889	1,191	63%

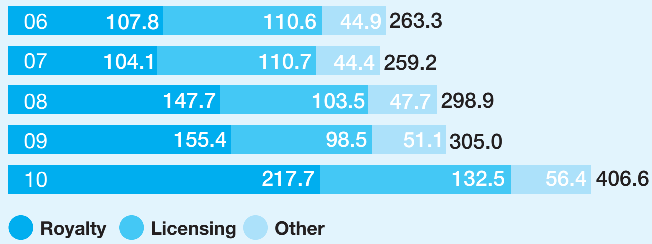
Highlights	What happened in 2010?	Future opportunities
743 Cumulative royalty-bearing processor licences signed at end of 2010.	More influential market leaders announced long term commitments to developing their roadmaps around ARM technology, including Freescale, Fujitsu, Microsoft, NVIDIA, Texas Instruments and Samsung. These agreements helped to drive revenues and backlog to their highest ever levels.	ARM has good visibility of the licensing opportunity pipeline, with more market leaders looking to licence and deploy ARM technology in a broad range of end markets.
6.1bn Our partners reported shipping over six billion ARM processor-based chips in 2010.	In 2010, the shipments of ARM processor-based chips grew by more than 50%, and royalty revenues grew by 40%, outperforming the industry which grew 23%.	ARM expects unit shipments and royalty revenue to grow faster than the semiconductor industry as ARM continues to gain share.
2.5 On average there are now 2.5 ARM processor-based chips in every mobile phone handset.	In 2010 smartphone shipments grew by more than 50%, driving the average number of ARM-based chips per handset to 2.5, an increase of about 25%.	Smartphone shipments are expected to continue to increase. ARM technology continues to be incorporated into simpler phones.
85% We now have 85% penetration in the hard disk drive market.	In 2010, ARM gained share in its target end-markets as major semiconductor companies increasingly deployed ARM processor-based chips.	ARM's market share gain looks set to continue as more major semiconductor companies will start to ship their first ARM processor-based chips over the next few years.
77 Cumulative royalty-bearing foundry platform physical IP licences by the end of 2010.	In 2010 we continued to see strong licensing for both our multimedia and physical IP technologies. Six semiconductor companies are now paying ARM multimedia royalties, and physical IP royalties accounted for 13% of total ARM royalty payments.	ARM expects licensing and market share to continue to grow as more semiconductor companies bring their ARM technology-based products to market.
63% Of our employees are engineers.	During 2010 ARM increased the engineering team by 15%, and kept the operational team broadly flat.	ARM expects to continue to invest in its employees, and over the medium term, we expect that we will be able to grow our revenues faster than our costs.

Revenue $m



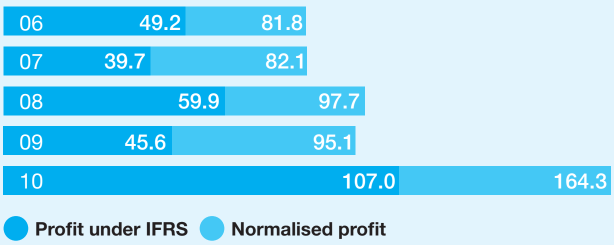
ARM's revenue growth is sustained by our customers incorporating ARM technology in more of their product lines.

Sterling revenues £m



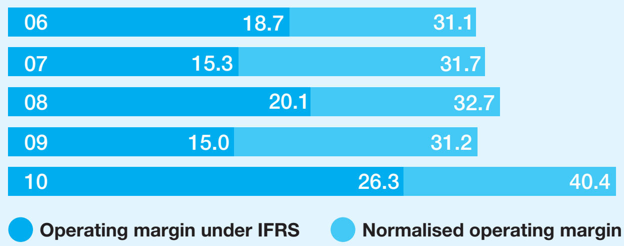
About 95% of ARM's revenues are in US dollars, but only about half of our costs are US dollar-based.

Profit from operations £m



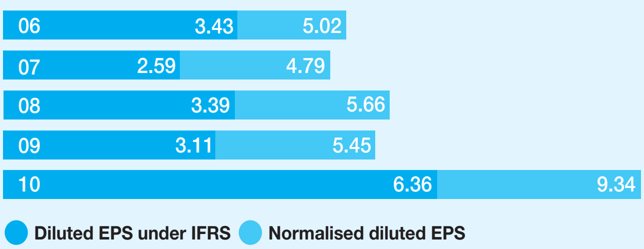
Growing revenues and continued financial discipline drive ARM's profitability.

Operating margin %



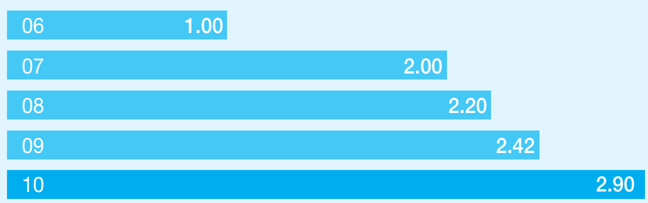
ARM's financial discipline balances long-term R&D investment with cost control to improve operating margins over time.

Earnings per share pence



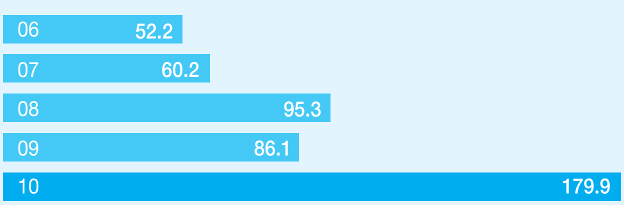
Revenue growth and margin expansion drive higher earnings per share.

Dividend pence



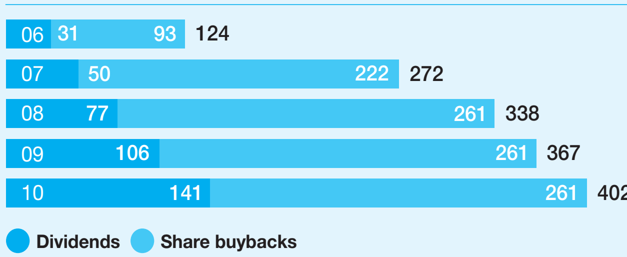
ARM has a progressive dividend policy, growing the dividend through industry cycles.

Normalised net cash generation £m



Net cash at the end of 2010 was £290 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.

ARM is the world's leading semiconductor intellectual property (IP) supplier

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

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 2010.

ARM has an innovative business model. We licence our technology to a network of Partners, mainly leading semiconductor 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 was developed by our Partners' R&D teams, but it is cheaper for them to licence the technology from ARM. The design of a processor requires a large amount of R&D investment and expertise. We estimate that every semiconductor company would need to spend about $100 million every year to reproduce what ARM does. This represents an additional $20 billion of annual costs for the industry. By designing once and licensing many times, ARM spreads the R&D costs over the whole industry, making digital electronics cheaper.

Technologies that are suitable for the ARM business model

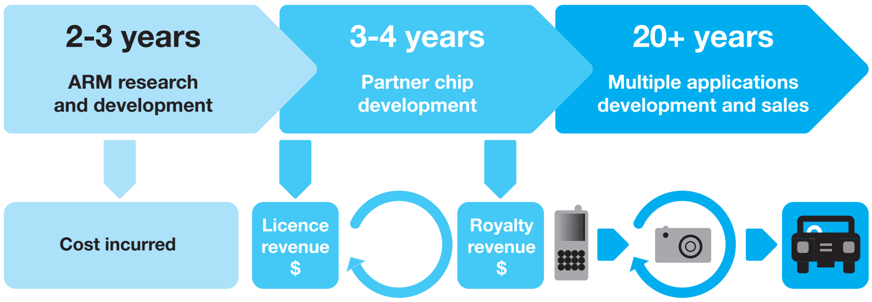
ARM's licensing business started in the early 1990s with the development of our first processor. The processor is like the brain of the chip; it is where the software runs and controls the functionality of the product that the chip is in. ARM designs each processor to be applicable to a broad range of end-markets to maximise the number of companies that can licence each processor. In most years ARM introduces 2-3 new processor designs.

Recently, ARM has developed other technologies suitable for a licensing and royalty business model, such as graphics processors and physical IP components.

How ARM creates value

ARM endeavours to recover its costs from the licence revenues of each technology, leaving the majority of royalties as profits. Over the medium term, we expect royalties to grow faster than licence revenues, and we expect that revenues will grow faster than costs, making ARM increasingly profitable.

As our customers are the world's largest semiconductor manufacturers, their regular royalty payments have become a highly reliable cash flow. ARM's business model is strongly cash generative. In 2010 we generated £180 million of cash. Since 2004, ARM has returned over £400 million of cash to shareholders through a combination of share buybacks and dividends.



ARM business model

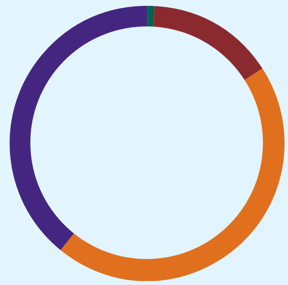
The companies who choose ARM technology pay an up-front licence fee to gain access to a design. They incorporate the ARM technology into their chip – a process that often takes 3-4 years. When the chip starts to ship, ARM receives a royalty on every chip that uses the design. Typically our royalty is based on the price of the chip. Each ARM processor design is suitable for a wide range of end applications and so can be reused in different chip families addressing multiple markets. Each new chip family generates a new stream of royalties. An ARM processor design may be used in many different chips and may ship for over 20 years.

ARM's global presence

Given our broad base of Partners, end-markets and geographies, ARM is not overly reliant on any one company, consumer product or country for its future profits and cash.

ARM licences by region

Over the last 20 years ARM processor licences have been signed mainly by companies in North America and Asia.



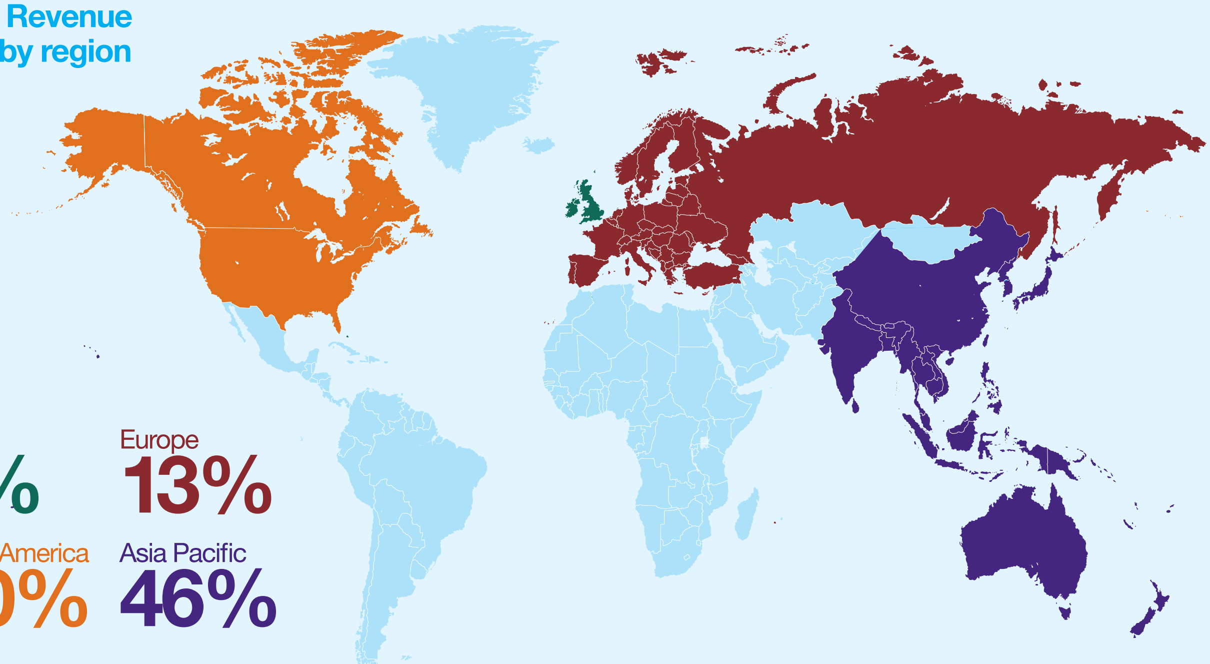
UK	1%
Europe	15%
North America	45%
Asia Pacific	39%

People

ARM added net 179 employees in 2010; over 90% were engineers.

UK	41%
Europe	11%
North America	27%
Asia Pacific	21%

2010 Revenue split by region



Revenue by destination

	2010 £'000	2009 £'000
UK	3,758	1,748
Europe	54,554	45,385
North America	161,058	110,000
Asia Pacific	187,225	147,889
	406,595	**305,022**

Our strategy for long-term growth

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

How we increase market penetration

ARM has achieved more than 95% penetration in some markets, such as chips for mobile handsets. As ARM's technology becomes increasingly applicable, this same level of market penetration is possible in other application areas. These include digital TVs, hard disk drives and microcontrollers.

ARM has been at the centre of the development of smarter mobile phones and the introduction of mobile computers such as tablets. The majority of these chips are based on our technology, and ARM is already licensing processors for future generations of computers. Over the last decade, ARM has also developed processors that are suitable for a wide range of digital devices, and influential market leaders are making long-term commitments to use our technology in a broadening range of end-markets.

We gain share as semiconductor companies increase the use of our technology in their chips. They utilise our technology because it is cheaper for the semiconductor manufacturer and their customers to use ARM technology in their chips than to develop their own proprietary processor and to maintain their own ecosystem. ARM is now developing new technology and a richer ecosystem so that semiconductor companies will continue to choose our technology.

To gain share in markets such as hard disk drives, digital TVs and microcontrollers we are nurturing new ecosystems and developing new partnerships. 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.

KPI
Building the base of licences that will drive future royalties

See page 07

KPI
Growing the number of ARM processor-based chips

See page 08

KPI
Increasing ARM's penetration in target end-markets

See page 10

ARM's growth drivers

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

Increase penetration in markets where ARM technology is particularly applicable, gaining royalty revenue from chips used in each consumer product.

Increase the value to ARM per consumer product by maximising the number of ARM processor-based chips in every device.

Extend ARM's business model to additional types of technology, generating multiple royalty streams from each chip.

ARM's financial discipline balances the need for continued investment to generate long-term future growth, whilst increasing today's profitability and shareholder returns.

How we increase the ARM value per device

As consumer products become smarter they often contain multiple ARM processor-based chips, each chip providing additional royalty revenue. A typical smartphone can contain 3-4 ARM processor-based chips, and as chips in a smartphone tend to be more expensive than in a simple phone, ARM can receive six times more royalty per smartphone compared to a voice-only phone.

As smartphones are continuing to get smarter, more connected and capable, even more functionality is being introduced to each handset. ARM is working at the forefront of this R&D to ensure that we are developing the right technology to further increase the number and value of ARM processor-based chips per device.

As other consumer electronics products become smarter and more connected they may also contain more ARM processor-based chips.

KPI
Increasing the value that ARM gets for every mobile handset sold

See page 9

How we are 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 are suitable for R&D outsourcing and can command an upfront licence fee and an ongoing royalty. Over the last few years ARM has introduced two major new technologies that fit these criteria:

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

ARM is now licensing these technologies to leading semiconductor companies.

KPI
Developing new technology to generate additional royalty streams

See page 11

How we are balancing investment in our business with growing profits and cash

ARM specialises in designing innovative technology and developing a sophisticated community of partners to help bring that technology to market. Our people are our strength. They are the ones who design the next generation of technology, and build and maintain the partnership. ARM invests in our employees through hiring both highly educated graduates and seasoned industry experts. We develop and nurture them, helping them to maximise their capability and potential.

In the medium term, we believe that we can grow our revenues at about twice the rate of our costs. This financial discipline will lead to increases in our profitability and free cash flow with excess cash distributed to shareholders.

KPI
Investing in ARM's product development capability and operational execution

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

See page 12 and 13

Outperforming the market

The semiconductor industry demonstrated strong growth in 2010, following the downturn of 2009. ARM's royalty revenue outperformed the industry in the recovery as well as the downturn.

In 2010 the industry grew by about 23%[1] over 2009, and ARM grew by about 29% during the same period. ARM outgrew the semiconductor industry through both the downturn and the recovery, and expects to continue this outperformance as we gain share.

This year our customers have increased their R&D investments. However, they are still looking to reduce their long-term costs, and have continued to outsource some of their development by licensing ARM's technology.

In 2010 ARM signed 91 processor licences, including ten for graphics processors, and we also signed nine physical IP foundry platform licences. In addition, we have seen customers who have licensed ARM technology in one division now start to reuse that design in other areas of their business.

For example, STMicroelectronics licensed ARM's Cortex-A9 originally for use in applications processors for mobile phones. They are now also using Cortex-A9 in chips for digital TVs.

Shortly after the start of 2011, Microsoft announced that the next version of the Microsoft Windows operating system and Microsoft Office would be available on ARM processor-based chips. This will help ARM's licensees to win designs in mobile computers and PCs where consumers expect to find Microsoft's products.

ARM partners reported shipping over six billion ARM processor-based chips in 2010. This has taken our market share from 23% in 2009 to 28% to 2010.

Analysts are divided on how the industry will fare in 2011 and beyond. The probability and duration of another recession is unclear, but any reduction in consumer spending may impact both industry revenues in the short-term and the longer term investment plans of technology companies. However, we believe that our innovative business model will enable us to continue to gain market share in long-term secular growth markets.

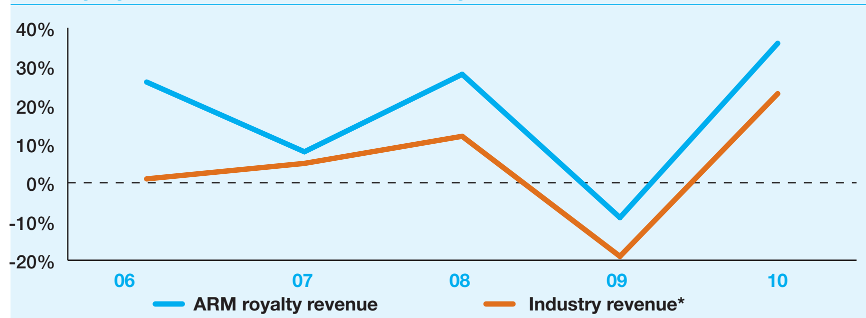
[1] Source: Semiconductor Industry Association, November 2010.

Market share

28%

ARM's market share

ARM royalty revenue vs semiconductor industry revenue



*Aligned with ARM's royalty reporting period.

Licenses by end-market

Mobile	28
Embedded	29
Enterprise	16
Home	18

New licences

91

We signed 91 new processor licences in 2010

KPI

Building the base of licences that will drive future royalties

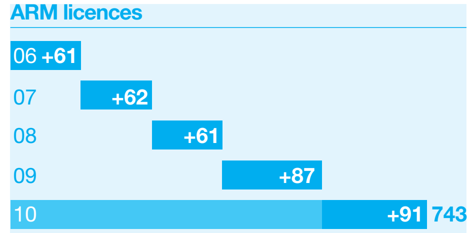
Every licence represents the opportunity for a future royalty stream. In most years ARM adds between 60-90 processor licences to its existing base of licences. In 2010, we signed 91 processor licences, taking the licensing base to nearly 750 licences. As companies looked to take advantage of the opportunities the recovery was creating, they still wanted to manage their own costs. This led to strong licensing in 2010, as companies chose ARM processors for a broadening range of end markets. This included influential market leaders such as Microsoft taking their first ever ARM technology licence, and companies such as Freescale announcing that they are planning to use ARM technology in their MCU division for the first time. ARM also introduced new processor products that will take ARM into new markets such as servers and digital signal controllers. 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, and increasingly ARM is being designed in other non-mobile applications such as digital TVs, hard disk drives and microcontrollers.

The future opportunity

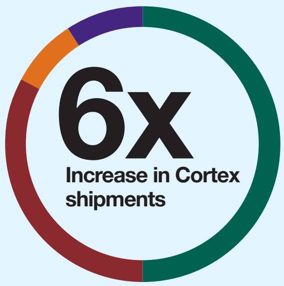
ARM expects that its customers will continue to re-equip themselves with the latest processors for their existing product lines. In addition, ARM's technology is becoming increasingly relevant to new markets such as sensors, mobile computers and servers; leading to new customers taking their first ever ARM licence.

To view the Annual Report online visit **www.arm.com/annualreport10**

ARM licences

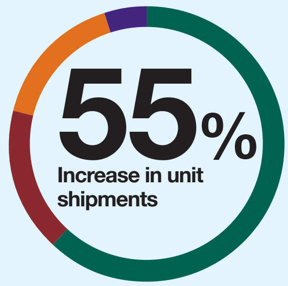


Processor family 2010 unit shipments



ARM7	50%
ARM9	33%
ARM11	8%
Cortex	9%

End-market 2010 unit shipments



Mobile	62%
Embedded	17%
Enterprise	16%
Home	5%

KPI

Growing the number of ARM processor-based chips

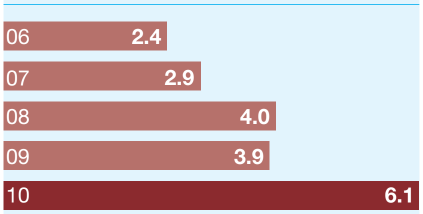
In 2010, ARM's customers reported 6.1 billion chips shipped, a 55% increase over 2009, much higher than the overall industry's growth of 30%. This demonstrates ARM's increasing relevance to equipment manufacturers as they choose ARM processor-based chips over proprietary designs. In 2009 ARM had a 23% market share and in 2010 this rose to 28%. Shipments of ARM processor-based chips into mobile devices increased by 50% driven by the growth in smartphones and tablets. Shipments of ARM processor-based chips into non-mobile devices increased by 60% as ARM technology is deployed in other market segments.

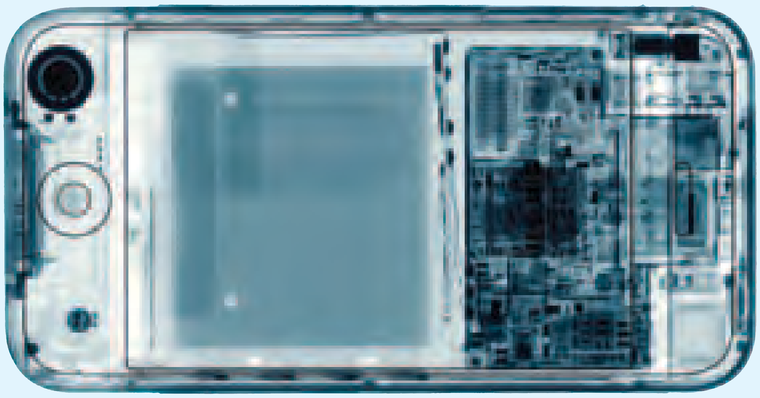
Compared to 2009, ARM's underlying royalty revenue grew by 36% (excluding $9 million of catch-up royalty received in Q2 2010). ARM expects unit shipments and royalty revenue to grow faster than the semiconductor industry as ARM continues to gain share. Shipments of ARM processor-based chips are growing most rapidly in microcontroller products as several major semiconductor vendors ramp into high volume.

The future opportunity

As ARM technology continues to be chosen by market leaders developing chips for a wide range of end-markets, we expect to continue to gain share. In addition, with major semiconductor companies, such as Atmel, Freescale, Fujitsu, Infineon and NVIDIA due to start shipping Cortex processors in high volume markets in 2011, ARM expects that Cortex will become a greater proportion of overall unit shipments.

Shipments of ARM processor-based chips bn





6x

ARM typically receives about six times more royalty from a smartphone than from a voice-only phone

KPI

Increasing the value that ARM gets for every mobile handset sold

During 2010, the number of mobile phones sold increased by 20% and the number of smartphones sold increased by 55%. Smartphones have more chips per handset than voice-only phones and this has helped to increase the average number of ARM processor-based chips per handset to 2.5 from 2.1 in 2009. Smartphone chips also have a higher price than basic phones, and a typical smartphone will generate about six times more royalty per phone than sales of a voice-only phone. So, more chips and more higher-priced chips are helping to increase the average value ARM gets per handset.

2010 also saw the introduction of mobile computers, such as tablets, utilising ARM technology within the applications processor. Like smartphones, mobile computers can also contain several ARM processor-based chips and generate similar amounts of royalty revenues.

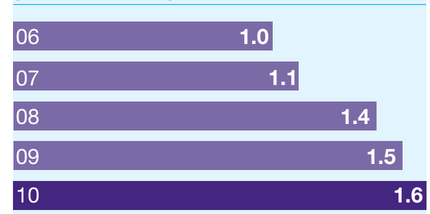
The future opportunity

ARM expects that smartphones will continue to become a higher proportion of the overall handset market, further increasing ARM's value per handset. At the Consumer Electronics Show (CES) in January 2011, many Original Equipment Manufacturers (OEMs) announced new tablets and other mobile computers, most of them using ARM processor-based chips.

In addition, there are other product categories that may soon contain multiple ARM processor-based chips, such as digital TVs and electronic systems within cars.

Average ARM processor-based chips per phone

ARM value per phone (indexed to 2006)



Hard disk drives

85%

Market share
Up from 65% in 2009

ARM's penetration into hard disk drives (HDD) and solid state drives grew strongly in 2010. Leading HDD controller companies designed ARM processors technology into their new products in 2010.

Digital TVs

35%

Market share
Up from 30% in 2009

Digital TVs and set-top boxes are becoming more internet connected, creating an opportunity for ARM technology.

Microcontrollers

10%

Market share
Up from 6% in 2009

ARM processor-based microcontrollers gained share as more leading semiconductor companies launched ARM processor-based products in 2010.

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. ARM is also developing new technology that will position our customers to gain share in markets such as servers and medical devices in the future.

85% 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.

35% ARM processor-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. High-end digital TVs are also using ARM technology to connect to the internet.

10% The microcontroller market is highly fragmented, and 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.

The future opportunity

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 licensees have announced new products in these areas.

Market penetration

Year	Hard disk drives	Digital TVs	Micro controllers
06	40%	15%	1%
07	50%	20%	2%
08	55%	25%	4%
09	65%	30%	6%
10	85%	35%	10%

Foundry licences

20nm

Leading foundries have licensed ARM physical IP to 20nm

Repeating the business model for other technologies

	Number of licences in 2010	Base of licences by end of 2010	Royalties in 2010
Physical IP	9	77	Twelve of the top 20 semiconductor companies used physical IP in their chips driving royalties through the foundries.
Video and graphics IP	10	39	Six leading semiconductor manufacturers paid royalties on ARM video and graphics IP.

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 processor-based chip.

KPI

Developing new technology to generate additional royalty streams

During 2010, 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 2010 ARM saw strong licensing and signed nine foundry platform licences for ARM's physical IP that will drive future royalty revenues, including TSMC licensing ARM's advanced physical IP at 28nm and 20nm. In addition, early in 2011, IBM and ARM announced a collaboration to develop advanced physical IP from 20nm to 14nm.

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, digital 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 2010, ARM signed ten graphics IP licences. Also leading semiconductor companies in mobile and consumer electronics markets such as Samsung and STMicroelectronics launched their first chips based on Mali technology.

The future opportunity

With a growing base of licences just starting to sell their chips in high quantities, we expect that the number of chips enabled by ARM's physical IP and multimedia technology will continue to grow.

Cumulative licences

Year	Multimedia licences	Physical IP platforms
06	2	40
07	6	50
08	14	60
09	28	68
10	39	77

Investing in innovators

ARM invests in our employees through hiring a mix of well educated graduates and seasoned industry experts, developing them and providing a supportive culture to maximise their capability and potential.

KPI

Investing in ARM's product development capability and operational execution

ARM specialises in designing innovative technology and developing a sophisticated community of Partners to bring that technology to market. Our people are our strength for designing the next generation of technology, delivering it to our customers, and for growing and maintaining the ARM partnership. ARM invests in our employees through hiring a mix of well educated graduates and seasoned industry experts, developing them and providing a supportive culture to maximise their capability and potential.

In 2010 ARM hired an additional net 179 people. Over 90% of our new hires were engineers, to increase our R&D capability. Most of this investment was in our processor and multimedia engineering teams to take advantage of the new opportunities for new ARM technology in servers, computing and 3D graphics.

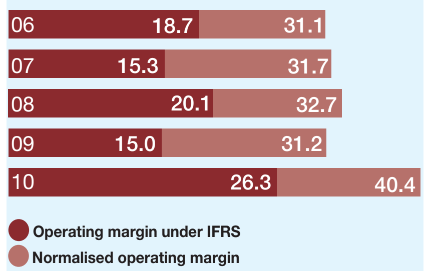
The future opportunity

ARM expects to continue to invest in its employees as we develop our engineering capability and operational execution. Due to the inherent leverage in the business model, over the medium term we expect that we will be able to grow our revenues faster than our costs.

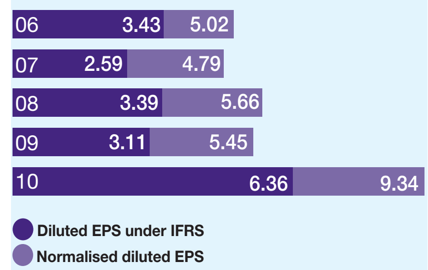
Number of employees

Year	Employees	Engineers	Percentage
06	1,659	1,049	63%
07	1,728	1,102	64%
08	1,740	1,071	62%
09	1,710	1,024	60%
10	1,889	1,191	63%

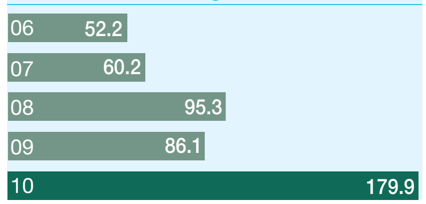
Operating margin %



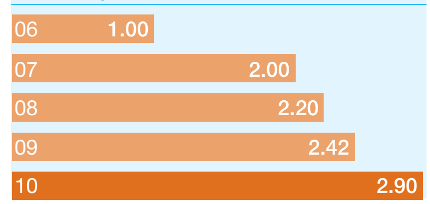
Earnings per share pence



Normalised net cash generation £m



Dividend pence



KPI

Growing normalised operating margin, EPS, cash generation and dividends

ARM's 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 2010 ARM's financial discipline focused investment in areas of maximum opportunity such as the recruitment of more engineers to develop next generation processor IP and multimedia IP.

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.

During 2010, ARM generated £180 million of cash, compared to £86 million in 2009. The increase in cash generation is primarily due to the increase in revenue. Since 2004, ARM has returned over £400 million of cash to shareholders through a combination of share buybacks and dividends.

The future opportunity

As royalty revenues become a greater proportion of ARM's overall revenues, ARM's profitability and cash generation is expected to increase.

To view the Annual Report online visit **www.arm.com/annualreport10**

20/20 vision

ARM was 20 years old in 2010. In these next few pages the ARM executive team discuss the journey the company has been on for the last two decades and how ARM may benefit as current trends unfold between now and 2020. ARM is still a young company and, with only about 28% of processor development out-sourced, the opportunity ahead of us is far greater than what we have achieved so far.

Apple Newton
Apple was one of the early investors in ARM, and their Apple Newton one of the first devices to contain an ARM processor-based chip. Over the past 20 years ARM's customers have sold about 25 billion chips, with a value of approximately $150 billion.

The ARM team
The 12 founders from Acorn were all engineers. They were joined by Robin Saxby as CEO to add some commercial experience. At the end of 2010, ARM employed nearly 1,900 people; the majority of them are engineers.

Nokia 6110
One of the first phones to take advantage of ARM's low-power technology was the iconic Nokia 6110. Today, over 95% of all the world's mobile phones contain ARM processor-based chips.

Sir Robin Saxby
Robin was ARM's CEO until 2001 and was once described by a Morgan Stanley analyst as "the grit in the oyster that formed the pearl".

The first ARM processor was developed by Acorn in 1985 for a low-cost PC. Although a technical breakthrough, commercial success was limited until ARM was founded in 1990 to take the technology forward. Twelve engineers, with some technology from Acorn and seed funding from Apple, started to look for applications that needed a low-cost, low-power embedded processor. No one could have guessed that a new consumer product was about to take the world by storm, and that it needed a chip with a smart processor which was both low-power and cheap to build... the mobile phone.

In the early 1990's, developers of the first digital mobile phones were looking for a processor to run the phones' 2G protocol stack. It needed to be smart enough to keep the phone connected to the network, and to manage the user interface, but low power enough not to drain the battery. It needed to be in an embedded system-on-chip to keep the cost down. Industry pioneers such as Nokia, Philips, Texas Instruments and Samsung recognised that ARM's technology was well suited to this task and that ARM's new processor

SWOT – 21 days after the Company started
From the start ARM knew that one of its unique strengths was its low-power, small processor, and it had opportunities in portable devices and in global markets.

Sony Bravia digital-TV
In 2010, ARM was in about 28% of all the world's chips with embedded processors, up from 23% the previous year. This trend is likely to continue as semiconductor companies look set to continue out-sourcing their technology to ARM.

The barn
ARM's first home was in a converted turkey shed in Cambridge, UK.

Samsung Galaxy Tab
Samsung's Galaxy Tab was one of many ARM-based mobile computers launched in 2010. More ARM processor-based computers are expected to be launched in 2011, and ARM's partners are developing technology for servers and PCs.

ARM's HQ remains in Cambridge and now ARM has 30 offices in 14 countries.

design, the ARM7TDMI, was an ideal fit. ARM's business model, with an upfront fee to gain access to the design and a royalty on any chips based on that design, enabled multiple companies to benefit from ARM's innovation. The combination of ARM's technology and business model enabled ARM's processor to become adopted in the majority of the mobile phones ever made.

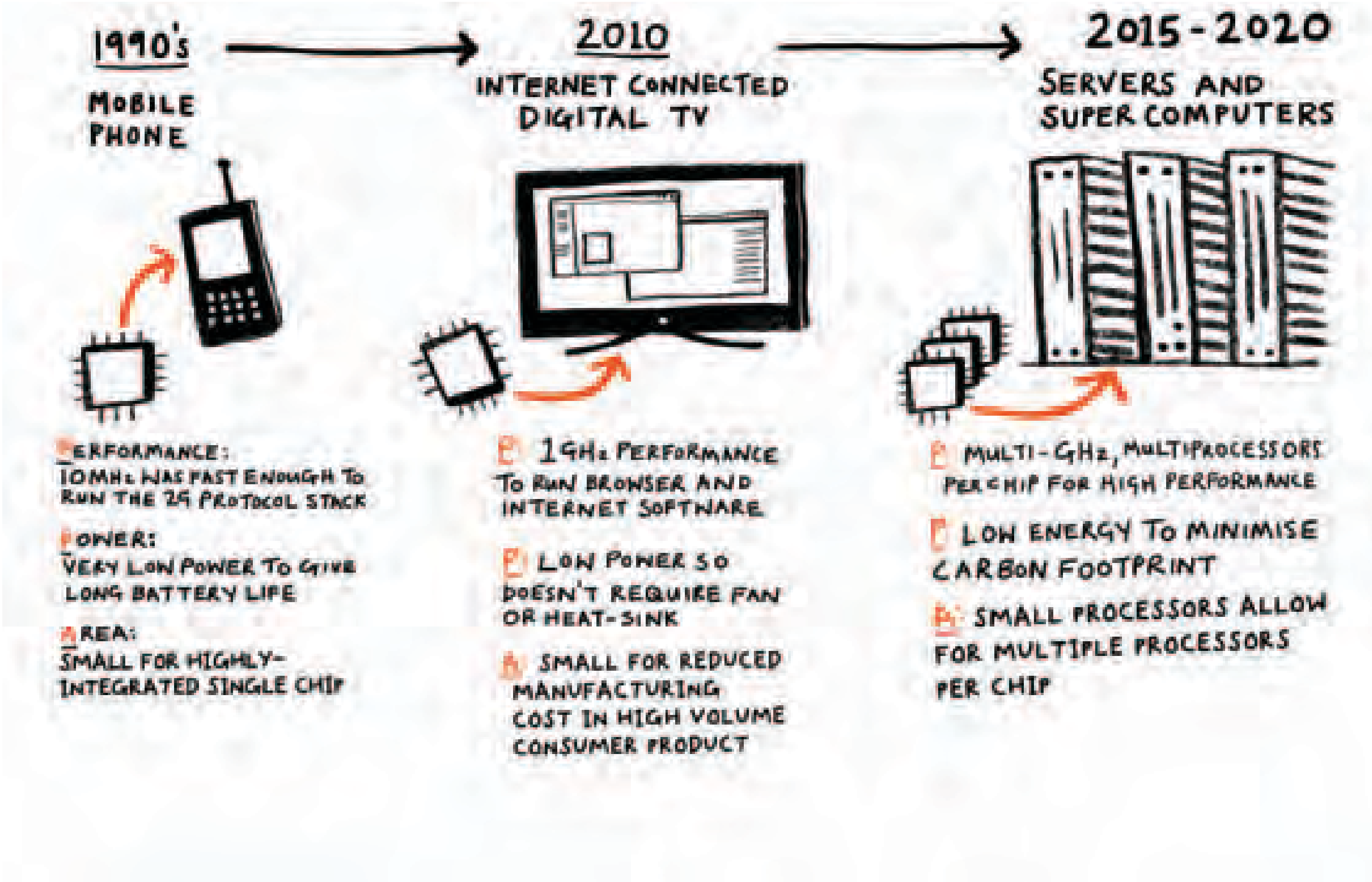
The mobile phone was just the first of many waves of consumer electronic devices that needed smart chips with processors that were low-power or low cost-to-build. Although some of ARM's Partners had originally acquired the technology for use in mobile devices, they were now entering new markets by reusing those designs in chips for digital cameras, hard disk drives and printers, and more recently in digital TVs and microcontrollers. Since then ARM has introduced new generations of processor families that are smarter and even more efficient, and ARM technology has become increasingly suitable for a wider range of end markets and applications.

Over 20 years, ARM has grown from a start up to almost ubiquity, developing technology that spans from sensors to servers. This has been achieved through the combination of the best technology, the best business model, the best ecosystem, built around people with vision and who excel in technology development and the management of a high-tech business. Together these combine to give a great opportunity for future growth.

Over the last 20 years, ARM's Partners have shipped about 25 billion ARM technology-based chips. Over six billion of these chips were shipped in 2010.

to create the best technology, it's better to be lucky and smart

Founder and Chief Technical Officer Mike Muller explains how serendipity combined with the power constraints of a battery has led to ARM developing smart, low-power processors that are now suitable for a broadening range of consumer electronics.



The original ARM processor was developed for a low-cost computer in the late 1980's. You make a chip low-cost by designing the processor with the least number of transistors to keep the chip small and with high software code density to reduce the amount of memory needed. Both of these characteristics have the added bonus of making the chip very low-power. When I presented our new technology at the Microprocessor Forum in 1992 an engineer from Texas Instruments was in the audience and was looking for a smart and low-power processor for applications from automotive to mobile phones.

Mobile phones have always been very sensitive to the power used by every component within the phone. However, consumers and operators want smarter mobile devices without compromising battery life. ARM has worked closely with semiconductor manufacturers, OEMs and service providers to get the correct balance between:

P – Performance of the processor required to deliver the desired functionality and capability.

P – Power consumed by the chip, both during peak operation and when idle.

A – Area of silicon, which equates to the eventual cost of the chip.

Getting the PPA balance right has been the key to ARM's success in mobile, but has become just as important in other applications:

- Mobile computers, such as tablets, need advanced processors that can browse the internet but have similar power constraints as mobile phones.
- Microcontroller chips in washing machines and toys are very cost sensitive, each costing less than $1 each, but still need to be smart.
- Servers consume huge amounts of energy. Some of our Partners are working on ARM technology-based chips which they believe can reduce energy by more than half.

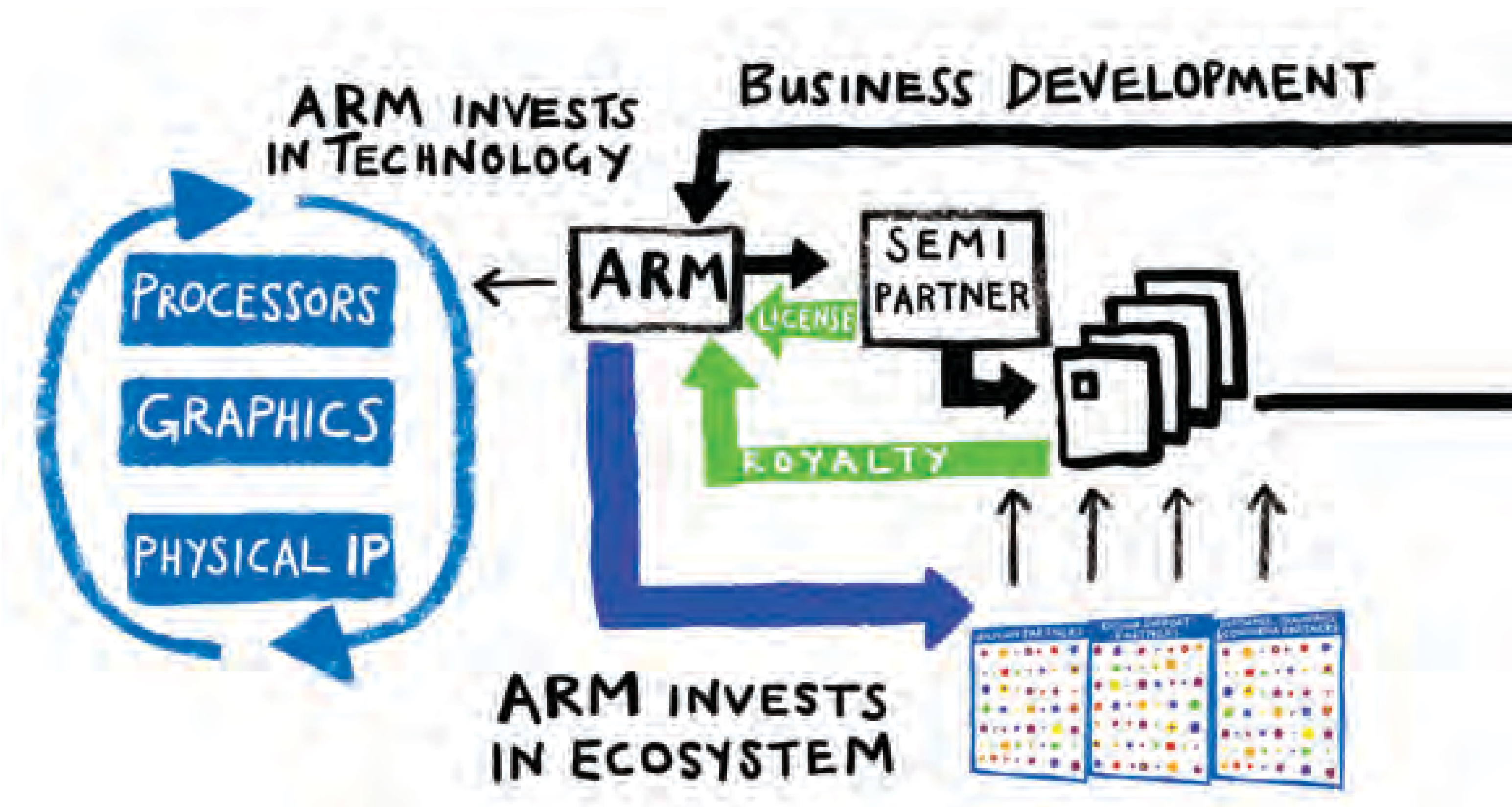
Building smart, low-power computers is getting harder. Shrinking geometries used to bring smaller size, faster speed and lower power but below 65nm designers have to work much harder to balance the PPA equation. This requires the type of ongoing innovation that has always driven our business.

- We have introduced techniques for running separate areas of an ARM processor at different frequencies and voltages reducing dynamic power consumption, and even shutting down part of the processor when they are not being used to further reduce power.
- ARM's advanced processors are now combined with optimised physical IP to deliver a predetermined PPA for a particular processor/process combination. This improves performance, lowers power consumption and reduces time to market for our Partners.

Getting the PPA balance right is unlikely to get easier, but every problem is an opportunity. We are now developing new technologies to manage process variability across an individual chip to further save power and increase performance. Each innovation we create makes ARM technology increasingly attractive to a wider number of semiconductor companies who are having to battle increasing cost and complexity in their chips.

a model business

ARM has developed a business model designed to deliver sustainable long-term growth. COO Graham Budd describes why the model is increasingly relevant in today's semiconductor industry.

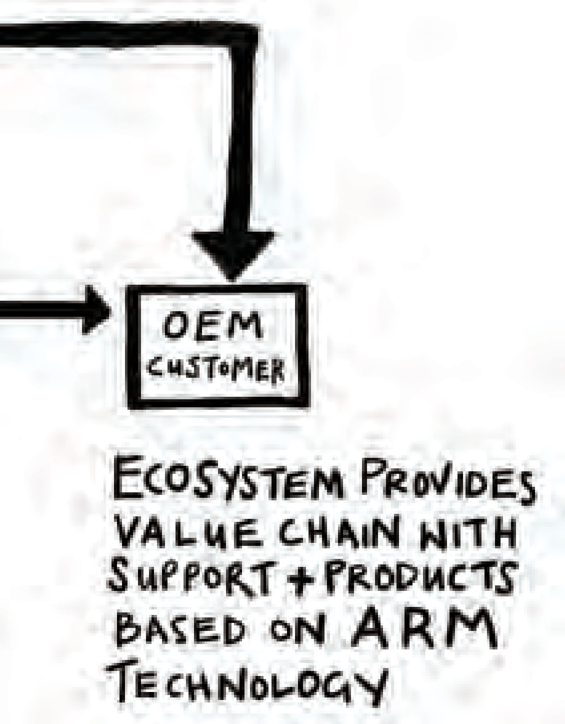


In 1990, as a small company with great microprocessor technology and a handful of engineers, but with few other resources, ARM needed an innovative business model to get this technology to market and help fund the investment in the next generation of processors. So we developed a model based on partnership with chip companies in long-term business relationships, to create a shared reward for success. The chip companies pay an upfront licence fee to access the processor design and then pay a royalty on every chip that they sell containing our technology.

This business model is an efficient and scalable way for a small company to get a return from its investment in technology without the expense of developing manufacturing capability. The upfront licence fees enabled continued R&D investment for a sustainable technology roadmap, while the royalty opportunity incentivises ARM to work with our customers and build the ecosystem required to help them succeed over the 3-5 years it takes to get their chips into volume production.

The business model is also financially efficient for the semiconductor companies. They pay ARM only a fraction of the cost that they would have incurred had they developed the technology themselves. Some of this cost saving is reinvested in their own R&D innovation and enables faster time to market, whilst some of the saving is passed on to the consumer. As the technology gets more complex and the ecosystem around it gets ever richer, these cost savings continue to increase.

For the OEM companies designing end-products using ARM-powered chips, the business model enables flexibility by encouraging multiple suppliers. It also encourages supplier innovation and differentiation, while still providing the software reuse and scalability benefits of working with the industry standard processor architecture. Our business approach has always included building relationships directly with the OEMs. This helps ARM to better understand future technology requirements for the end product markets, and creates "pull" from the OEMs to the chip companies incorporating ARM technology.



Looking to the future, design complexity continues to rise, impacting development cost, execution risk and time to market. This is driving increased outsourcing of technology development by the semiconductor industry, and the ARM business model scales to support this. More companies are choosing a broader range of ARM technology, feeding through into more ARM-powered end products. In 2010, ARM processor technology could be found in 28% of digital electronic chip shipments, but design wins in the pipeline suggest that our market penetration will be higher in the future.

The business model is very flexible and continues to work well as new types of devices and applications emerge, and different types of companies want access to ARM technology. Although semiconductor companies remain our biggest customers, we also provide ARM technology to OEMs and Operating System (OS) vendors, start-ups and well established companies and universities and technology institutes. As the world's engineers develop their products around ARM technology this will help to drive our long-term licensing and royalty revenues.

ARM has also extended the business model to cover new technologies, such as our 3D graphics and physical IP products. Each of these technologies generate new licensing opportunities and additional royalty streams from the sale of a chip. Combined with processor technology, ARM is already receiving multiple royalties from the sale of advanced chips into some mobile computing and digital TV applications.

Built around the principles of partnership and shared rewards for success, ARM's business model continues to play an important part in enabling sustainable business growth as the pace of innovation in digital electronics accelerates.

eco friendly

The ARM partnership is an ecosystem of hundreds of companies that have built their business around ARM technology. Ian Drew, EVP of Marketing, explains how ARM develops this ecosystem and why it is so important to ARM's long-term success.

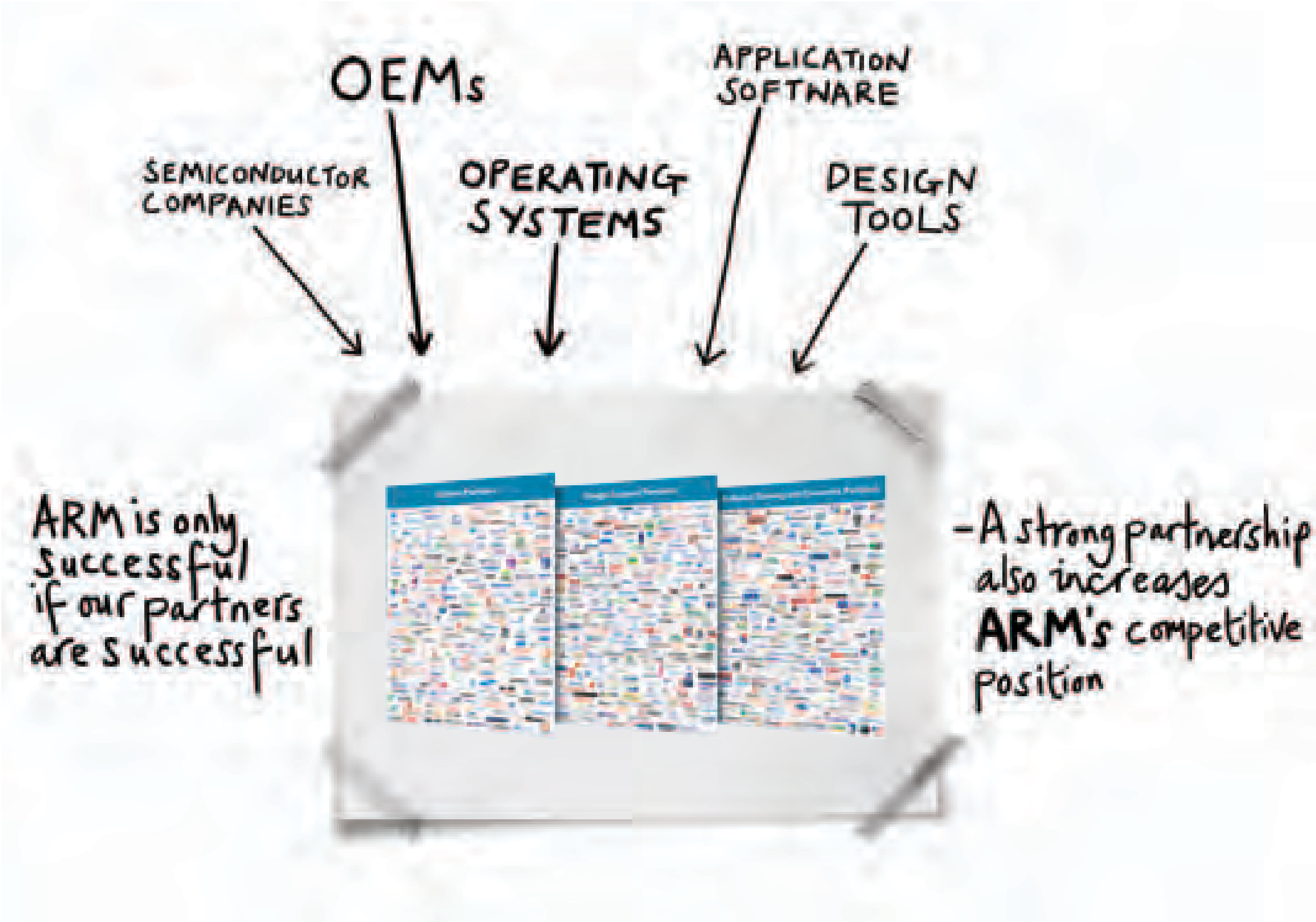
The ARM business model requires multiple companies to work together to deliver power efficient products to the industry and ultimately to consumers. Our ecosystem is a connected community of hundreds of companies developing their products and services around ARM technology. These companies include semiconductor manufacturers, design automation and tools providers, and operating system and application software vendors. It is the quality and breadth of these companies that determine ARM's ability to rapidly penetrate new markets. In 2010 we have expanded the geographical reach of our partnership to include the most talented and innovative companies in countries such as Brazil and Russia, as well as expanding within more established regions, such as Europe, USA and China.

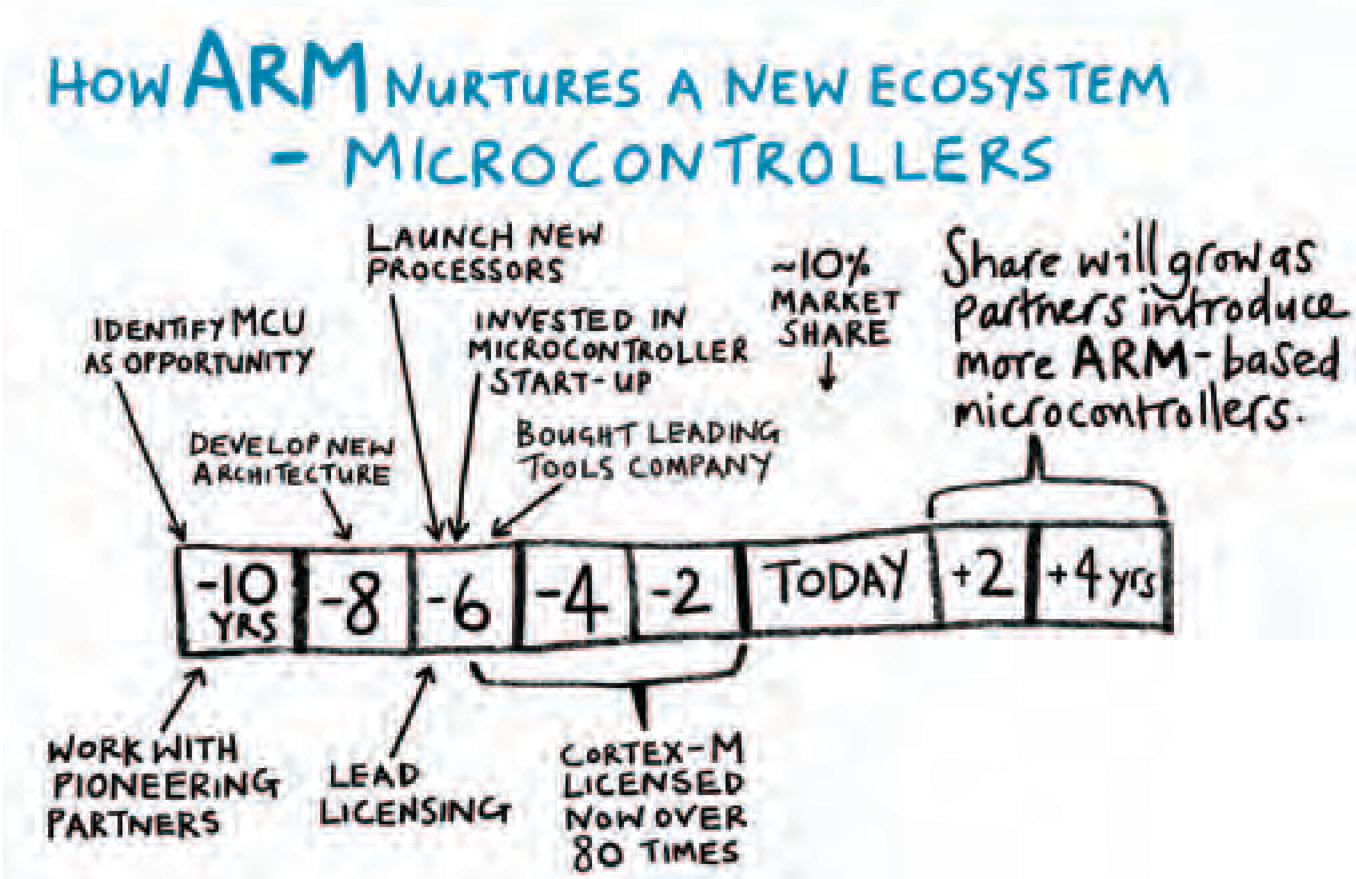
Whenever we enter a new market, we identify the partnerships needed to create a supporting ecosystem.

My marketing team spends much of its time building and maintaining these partnerships, ensuring that everyone sees the opportunity from which we can all benefit. For example, the success of mobile internet-connected devices has extended the range of Partners that ARM works with to include major browser and plug-in developers, gaming companies and tools vendors. I'm always pleased to see the latest generation of tablets, smartphones and smartbooks come to market combining ARM's advanced processors and physical IP with our Partners' latest technology.

A strong partnership also strengthens ARM's competitive position. Any new entrant into a market will have to make a huge investment to create an ecosystem as rich and diverse as the ARM partnership.

The ARM partnership is vital to ARM's long-term success. The key to creating and maintaining a thriving ecosystem is for all our Partners to see an opportunity to succeed, so that we can all benefit together.


OEMs
APPLICATION SOFTWARE
SEMICONDUCTOR COMPANIES
OPERATING SYSTEMS
DESIGN TOOLS
ARM is only successful if our partners are successful
– A strong partnership also increases ARM's competitive position

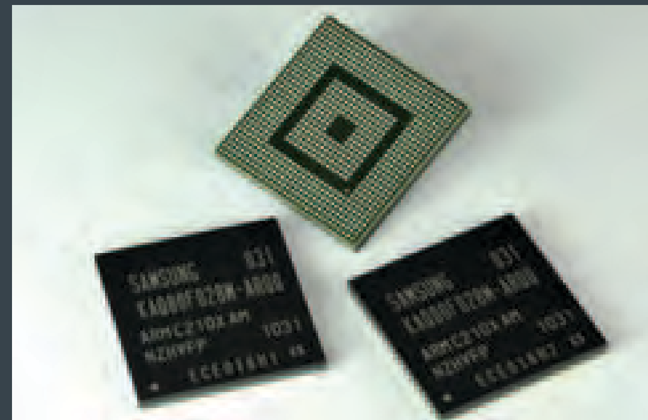

HOW ARM NURTURES A NEW ECOSYSTEM – MICROCONTROLLERS
LAUNCH NEW PROCESSORS
~10% MARKET SHARE
Share will grow as partners introduce more ARM-based microcontrollers.
IDENTIFY MCU AS OPPORTUNITY
INVESTED IN MICROCONTROLLER START-UP
DEVELOP NEW ARCHITECTURE
BOUGHT LEADING TOOLS COMPANY
-10 YRS
-8
-6
-4
-2
TODAY
+2
+4 yrs
WORK WITH PIONEERING PARTNERS
LEAD LICENSING
CORTEX-M LICENSED NOW OVER 80 TIMES

partnership in action

ARM is part of the R&D team for hundreds of semiconductor companies, as they license our technology and build it into their products.

Here five companies explain why they have chosen to partner with ARM.

Samsung and TSMC are long-established semiconductor companies initially working with our processors, and are now utilising ARM's graphics and physical IP. Calxeda, Energy Micro and Nufront are recent partners deploying multiple ARM technologies in their first products.



TSMC

Dr. Shang-yi Chiang, Senior Vice President of R&D at TSMC describes their partnership with ARM that develops physical IP across TSMC's process nodes extending to 20nm

TSMC is the originator of the dedicated semiconductor foundry model, providing industry-leading process technology and the largest portfolio of process-proven IP, design tools and reference flows. Our 2010 capacity totals over 11.3 million (8-inch equivalent) wafers. TSMC is the foundation for IC innovation and is the first foundry to provide 40nm and 28nm production capability for ARM technology-based chips. The first optimised ARM technology-based 28nm chips are expected in 2011.

Central to the TSMC-ARM collaboration is our mission to be the technology and capacity provider for the global IC industry. That is why our estimated 2010 R&D investment is around US$945 million and we anticipate that commitment increasing to US$1.1 billion in 2011.

Going hand-in-hand with this commitment is our belief that design tool and IP readiness have a great impact on advanced technology development. Earlier this year, ARM and TSMC signed an agreement to optimise system-on-chip development on TSMC process nodes extending to 20nm. This was a watershed moment in semiconductor industry history because it brought together two leading companies into a forward-looking, long-term relationship that could benefit virtually every IC device company.

The real crux of this agreement and our relationship with ARM is that advanced semiconductor manufacturing technology requires earlier and tighter collaboration throughout the supply chain. As a result of our efforts, ARM and TSMC will help designers optimise the power, performance and area challenge for ARM cores using TSMC's process technology. It also means that designers can count on this collaboration for many years because the agreement extends to 20nm manufacturing processes.

TSMC and ARM have worked closely together on physical IP technology for nearly 15 years starting at the 180nm process node. Since then, the TSMC-ARM collaboration has delivered many results through implementations targeted to consumer electronics, mobile devices, tablet PCs and server applications.

ARM and TSMC have been at the forefront of semiconductor excellence for over 20 years. We look forward to our continued collaboration.

Samsung

Chinhyun Kim, vice president of System LSI SOC Development at Samsung Electronics, on their adoption of ARM's Mali 3D graphics processor technology

Samsung Electronics Co., Ltd. is a global leader in semiconductor, telecommunication, digital media and digital convergence technologies, employing approximately 174,000 people in 66 countries.

Samsung is proud to have been amongst the pioneering companies who first adopted ARM technology, signing an initial processor licence in 1994. Samsung has worked closely with ARM's R&D teams since and gone on to utilise most of the major ARM Product families to the present day.

Both companies share a common interest in the development of low-power, high-performance processor technologies through on-going investments in innovation. Samsung benefits from ARM's investment in advanced architecture and software, as well as from the contributions of ARM's rich ecosystem of partner companies.

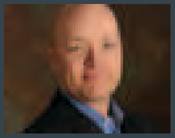
Samsung announced the licensing of ARM's Mali 3D graphics processor family in February 2010, which represents the start of a long-term close collaboration on graphics technology. The first Samsung SoC (System-on-Chip) product which utilises the Mali graphics processor was announced in Q3 2010.

Samsung chose Mali 3D graphics processor for SoCs that require high performance graphics capability. By leveraging the close coupling of the ARM processor and graphics processor technologies, Samsung believes that Mali graphics technology will deliver advanced low-power graphics solutions.

The integration of 3D graphics processor IP into an advanced SoC requires a complete solution from the IP supplier, including high quality deliverables such as a full suite of software and tools, timely and accurate technical support, and effective training for design engineers. Samsung believes ARM, as has been demonstrated in their past success in CPU technology, can provide all of these solutions for 3D technology as well.

Samsung is pleased with this extension to the 16-year-strong partnership with ARM, and wishes to continue the close collaboration between the two companies to create ever more advanced low-power, high performance SoC solutions for various market segments.

Calxeda



Barry Evans, CEO of Calxeda, on how they are utilising ARM's processor and physical IP to create low-power chips for server applications

Calxeda, formerly Smooth-stone, Inc., was founded in early 2008 to develop a new generation of low-power processors for web and cloud-computing markets, combining clusters of ARM Cortex-A9 processors optimised with ARM's physical IP to enable power efficient servers.

The operating costs of a data centre are increasingly driven by the energy costs from both running and cooling the server systems. Reducing power consumption in the server chips will therefore improve the P&L of a data centre or a company with a large IT department. Also, as consumers and governments desire to reduce overall carbon emissions, every website hosting company will want to demonstrate that they are working to reduce their carbon footprint. It is still early days for Calxeda, but we believe that our technology can enable systems with a throughput-performance/watt that has never before been possible, reducing processor energy consumption by as much as tenfold.

We chose to develop Calxeda chips around ARM technology as their designs are inherently low-power, both when running at peak performance and also when idle. The ARM Cortex-A9 processor, with its scalable multiprocessor capability, provides the high-performance needed in a server application. Combining Cortex-A9 with ARM's physical IP maximises the performance without compromising the processor's low-power characteristics. ARM's rich ecosystem of software tools, application software and operating systems will provide much of the software that Calxeda will need to get a server to market. This software includes open-source software such as Linux, Apache, MySQL, Perl and Python, which are together known as LAMP-stack software.

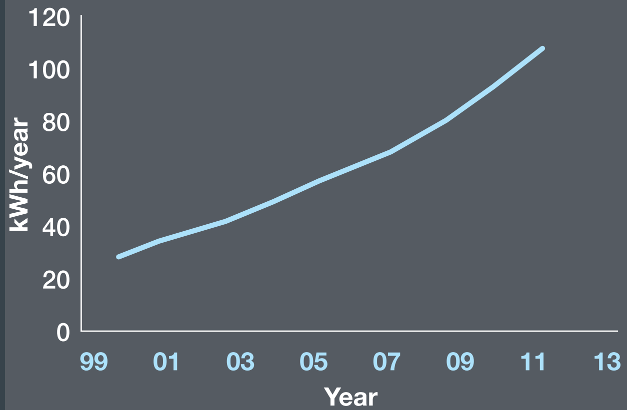
Several OEMs are currently designing servers based on Calxeda's technology and we hope that the first lower-power servers may be commercially available by 2013.

Calxeda is supported and funded by ARM and Texas Instruments, along with a number of venture capital firms. See available for sale assets in note 13 to the accounts for details of all of ARM's long-term investments.

"We believe that our technology can enable systems with a throughput-performance/watt that has never before been possible, reducing processor energy consumption by as much as tenfold".

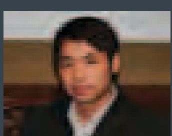
Energy use by scenario

EPA Current trends



The operating costs of a data centre are increasingly driven by the energy costs from both running and cooling the server systems.

Nufront CSC



Vince Zhou, General Manager at NUFRONT CSC on their adoption of ARM's Cortex-A9 processor and Mali multi-core graphics processor technology, and high-performance Physical IP

Based in Beijing, NUFRONT was founded by Chinese technology experts who have brought our Silicon Valley experience back to China. We have created a highly innovative company developing a broad range of technologies including wireless communication, video search and digital image processing systems and computing system chips. We have an extensive partnership with industry-leading companies, both within China and world-wide, and also with first-class Chinese universities and academic institutes. One of these partnerships is with ARM.

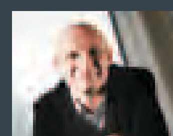
The PC chip market is now being opened up to new companies and a new computing era is coming. This has been enabled by advances in high-performance system-on-chip design and the combined talents of best-in-class companies coming together from across the semiconductor industry. These companies bring their technology and experience, developed in mobile handsets and consumer electronics, to create a highly power-efficient and versatile user-experience.

In August 2010 NUFRONT launched the NuSmart™ 2816. This is the world's first chip to integrate a 2GHz dual-core ARM Cortex-A9 processor and Mali multi-core graphics processor with all of the functionality that you would expect to find within a desktop computer, including interfaces to high speed DDR2/3 memory, SATA HDD/SSD storage, USB and Ethernet. Built on 40nm process technology, the NuSmart 2816 runs at 1.6-2.0GHz and consumes less than 2 Watts, which is much less power than current PC-chips.

We chose to use the ARM processors because, when combined with ARM's physical IP, this technology delivers the balance between high-performance and low-power we needed. In addition, the ARM ecosystem of software companies further extends our partnership and enables NUFRONT to provide PC-class operating systems and application software to go with our PC-class chip.

For 2011, we have set a target that $250 laptops will be widely available in China and rest of the world, based on the NuSmart 2816. Together with our partners we have an opportunity to create low-cost laptops with low-energy chips that drive the new computing era.

Energy Micro



Geir Førre, President and CEO at Energy Micro on their adoption of ARM's Cortex-M3 processor technology

Founded in 2007, Energy Micro is the creator of the world's most energy friendly microcontroller. Our EFM32 Gecko microcontroller product family is based on the industry-leading ARM Cortex-M3 processor. As a true innovator, our bold mission was to produce a 32-bit microcontroller capable of achieving a 4x increase in battery life and an easy-to-use development environment enabling designers to cut system development times by a half.

There are an ever-growing number of embedded applications where energy saving and efficiency are at the very top of developers' priorities. Such design criteria can be due to government regulations (e.g. metering applications), a requirement to increase battery life, or simply a need to reduce power consumption. Our EFM32 Gecko family of energy friendly microcontrollers therefore combines a smart ARM Cortex-M3 with a range of energy saving features, including advanced low power peripherals, a peripheral reflex system, well-architected energy modes and an advanced energy monitoring utility. The resulting low energy operation can help extend typical battery lifetime to more than 20 years.

We chose to build our Gecko microcontrollers around the ARM Cortex-M3 processor because it offers superior energy efficiency. The Cortex-M3 is also a smart, high-performance and low-power processor with a strong ecosystem of tools and software, that many of our customers already know how to use. For battery powered applications, our target is to make the battery last as long as possible and so we need to reduce power consumption as much as possible. As a high-performance processor, the ARM Cortex-M3 can finish tasks faster, enabling the microcontroller to spend most of its time in stand-by mode.

Our EFM32 Gecko microcontrollers are being designed into a broad range of energy sensitive applications including energy metering, home and building automation, alarm and security systems and medical and lifestyle equipment and our goal is to sell 100 million by 2013.

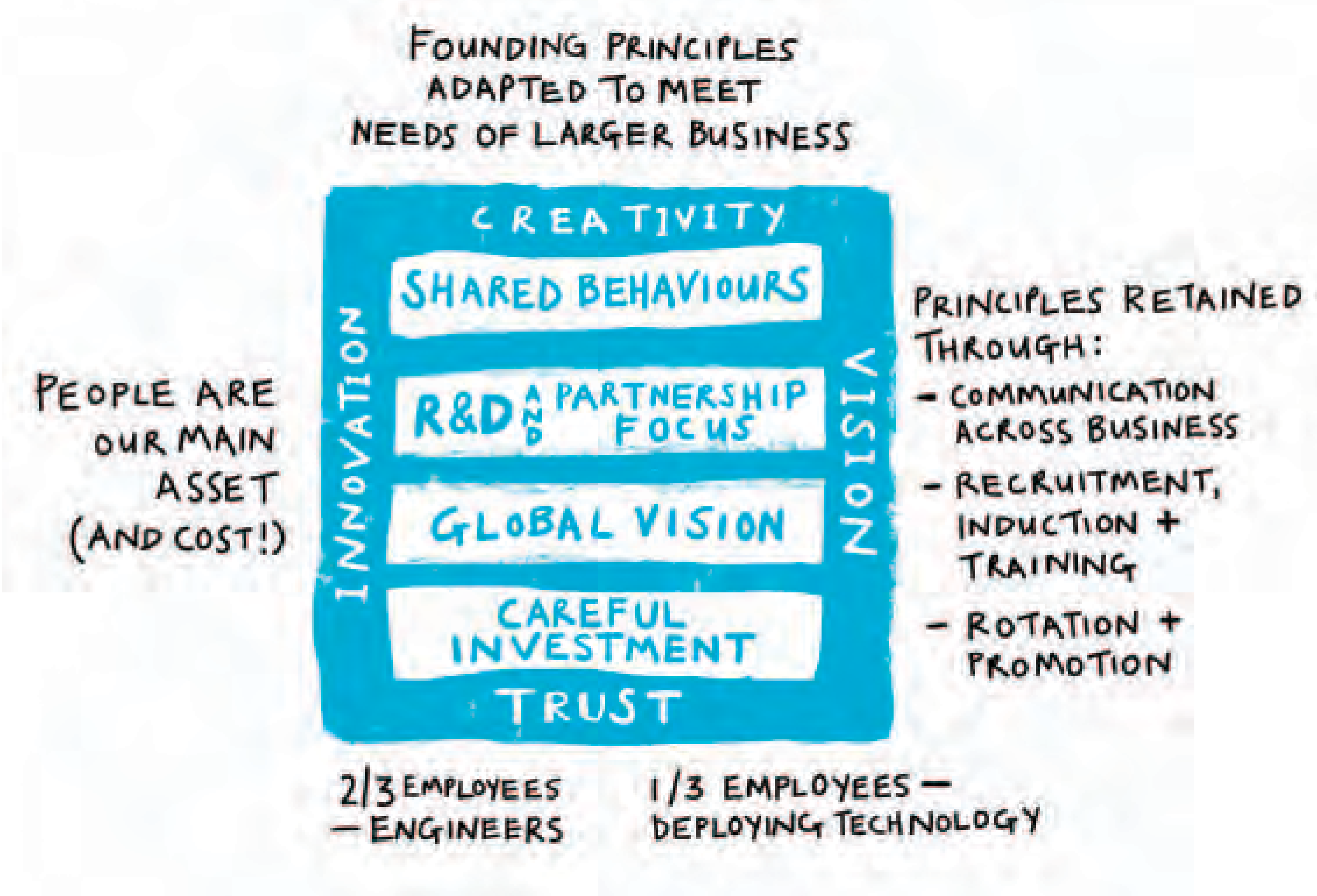
the ideas lab

ARM's ability to create value comes from its employees developing and delivering IP that is useful to its customers. Tudor Brown, founder and President, explains how a shared vision and mission helped ARM to become the world leader in semiconductor IP and are still at the heart of the company today.

ARM has become the world leader in semiconductor IP because we have some of the most creative and innovative people, who also have the vision and drive to develop and deploy the best technology. The ARM team is bound together by a set of principles and behaviours by which we operate. These principles and behaviours evolved as the company was formed, and still hold true today.

Shared behaviours

We consider the following as essential elements of the behaviour of an ARM employee in whatever discipline they work: teamwork and selflessness; constructive proactivity; partner and customer focus and responsiveness. In addition we encourage all employees to take pride in innovation and in their own self-development.



R&D and partnership focus

The focus of our business model is to create products that are well suited for many Partners to use in a diverse range of markets. The innovation of our employees therefore rests in the ability to understand and optimise the common essential requirements from a range of inputs. In this way ARM achieves a high "hit rate" of successful products. By listening to many parts of the ARM network such as our semiconductor partners, OEMs, our own research and University research we are able to create a pipeline of truly innovative and leading products.

Nearly two-thirds of ARM's employees are engineers, specifying and inventing new technology to be licensed. ARM's non-engineering employees focus on the deployment of this technology; marketing and sales maintain the essential relationships with our Partners, legal and licensing teams support negotiations, infrastructure teams provide the delivery mechanisms, finance teams manage the money and HR teams support the development of the whole team.

Global vision

The initial vision to make ARM a Global Standard clearly required an international focus, and so from the early days we set about marketing and selling ARM technology in countries outside the UK. Today that global focus remains and we now have 30 offices in 14 countries with less than 50% of the workforce being located in the UK. These offices range from simple sales representations to support and marketing organisations through to R&D development sites. We have a strong culture of encouraging internal communication and interworking between sites. From the beginning we believed strongly in spending time with customers at their locations, so many ARM employees, at all levels, are frequent international travellers.

Careful ongoing investment

We have always run the business to be "lean and mean", believing that keeping resources tight maintains a focus on the most critical tasks, and balances investment with generating profits and cash. Most of ARM's costs are people-related; from engineers sitting at their work-stations designing next generation technology to sales and marketing teams closing the next licence. Investing in more people can only be justified by the opportunity for more sales.

We have retained this approach, even as the company has grown, through careful recruitment, induction of new employees and in-house training. We generally try to promote and rotate people internally to develop and extend their skill-base. In addition to this we regularly appraise all employees to review our adherence to the principles and behaviours above and to assess training needs.

These shared principles and behaviours have evolved over the last 20 years as the ARM team has increased to provide technology to the growing ecosystem of Partners. They still guide us today and I am confident that they will help the ARM team to continue to develop and to create and licence technology for years to come.

forward momentum

ARM is well positioned as global trends drive the use of technology into the lives of billions of people. Warren East, CEO, explains how these trends will benefit ARM and could lead to 100 billion ARM-technology based chips being shipped over the next ten years.

From its earliest days, ARM has benefited from a number of global trends such as the out-sourcing of technology development by the semiconductor industry, and the adoption of mobile phones. Many of these trends will continue to benefit ARM over the next ten years, and will be joined by additional trends such as the consumerisation of the internet, the increase in embedded computing and the proliferation of microcontrollers.

Consumerisation of the internet

For years the internet just connected PCs and businesses together, but it has recently expanded its scope and capability by connecting all types of digital electronic devices together, not just phones and mobile computers, but also toys, cars, digital TVs, games consoles, navigation devices, and with the advent of smart-metering even white goods. This expansion benefits ARM because chips based on our technology can be found in many of the communications electronics that connect a device to the internet. In addition, internet connectivity can enable new products and services that can become viable only with adoption of even more technology such as video-on-demand which may need a secure method for payments.

Reliable efficient embedded computing

Consumers wanting to download content from the internet or play on-line games need high speed data connections. Fourth generation mobile phone networks are currently being installed, offering constant connectivity and data rates up to 100MB/s. To take advantage of this data stream, a mobile device will need a highly efficient processor in the baseband modem.

The infrastructure of the internet will also need capable, high-performance processors to support increased traffic, transmitted at faster data rates. Rich content, such as video or games, may also require larger storage capabilities in the consumer device and in the cloud. All of these modems, and networking and storage devices, are opportunities for ARM technology.

Smart low-cost microcontrollers

Some of the electronic devices that we use everyday are already beginning to utilise smarter technology to enable remote monitoring and control, make better decisions and to make huge reductions in the energy consumed by such devices. For example, some washing machines today have enough intelligence to decide how much detergent to use based on how dirty the clothes are, and spin the drum using more energy efficient control algorithms. Future washing machines may also connect to the

electricity grid to enquire when energy pricing will be at its cheapest level to smooth out peaks in demand. We work hard to design appropriate products and engage with suitable partners to put our technology at the heart of all these devices.

Together these trends will drive the need for smarter chips and increase the adoption and deployment of ARM technology across multiple markets. ARM's partners have already shipped about 25 billion ARM processor-based chips cumulatively, and we are now looking forward to a future where another 100 billion ARM processor-based chips will be shipped over the next ten years.

Review of 2010 and our view of 2015

Devices containing for ARM processor-based chips In millions	2010 estimates: Device shipments in 2010	Chips per device	Opportunity for ARM-based chips	2010 ARM shipments	2010 market share	2015 view: Device shipments in 2015	Chips per device	Opportunity for ARM-based chips
Smartphones	280	2–5	1,200	1,100	90%	1,100	3–5	4,000
Feature phones	760	1–3	1,900	1,700	90%	650	2–3	2,000
Low-end voice phones	570	1	570	540	95%	700	1–2	1,300
Portable media players	150	1–3	300	220	70%	120	1–3	250
Mobile computers*+	230	1	230	25	10%	750	1	750
Desktop PCs and servers+	220	1	220	–	–	250	1	250
Digital cameras	130	1–2	200	160	80%	150	1–2	250
Set-top box/Digital TV	350	1–2	450	160	35%	500	1–4	1,200
Networking	670	1–2	750	185	25%	800	1–2	1,400
Printers	120	1	120	75	65%	200	1	200
Disk drives	670	1	670	560	85%	1,100	1	1,100
Automotive applications	1,800	1	1,800	180	10%	2,200	1	2,200
Smart cards	5,400	1	5,400	330	6%	7,700	1	7,700
Microcontrollers	5,800	1	5,800	560	10%	9,000	1	9,000
Others**	1,700	1	1,800	270	15%	2,000	1	2,000
Totals	18.9bn		21.4bn	6.1bn	28%	27.2bn		33.6bn

* Including tablets, netbooks and laptops.
** Includes other applications not listed such as headsets, DVD, game consoles, etc.
\+ Apps only.
Source: ABI, Gartner, Semico, Instat, IDC and ARM estimates.

Innovation driving shareholder returns

Growing revenues and profitability allow ARM to re-invest in innovation as well as increasing shareholder returns.

Financial performance

The Group's key financial performance indicators measure performance against revenue, profit, earnings per share and cash and are discussed in detail as part of this review. Non-financial key performance indicators have both a direct and indirect influence on the Group's financial performance and are discussed in detail in the "Overview" section.

2010 saw the Group recover momentum in revenues and underlying earnings, whilst continuing to invest strongly in research and development. ARM's licensees responded to the stabilisation of the global economy by signing a record number of licences in both the Processor Division (PD) and the Physical IP Division (PIPD), demonstrating how the semiconductor industry is increasingly choosing ARM's technology. An analysis of the PD and PIPD licences signed during the year is provided in the progress against strategy section.

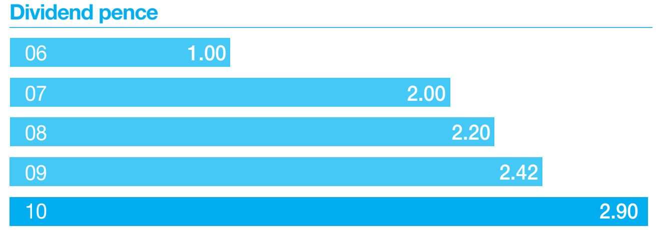
US dollar royalty revenues increased by 37% from 2009 to 2010. As there is virtually no cost of sale associated with royalty revenues, gross profit has continued its recent trend of increasing as a proportion of revenues. An analysis of the PD and PIPD unit shipments in 2010 is provided in the progress against strategy section.

The cash generative nature of the ARM business allowed the Group to continue to grow its cash balance as well as making increased dividend payments in the year. Normalised cash generation for the Group in 2010 was £179.9 million (2009: £86.1 million) and the directors have recommended payment of a total dividend of 2.90 pence per share in respect of 2010.

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 addition, the issuance of ARM share-based remuneration to employees of the Group gives rise to share-based payment charges. Figures excluding these charges, restructuring charges Linaro-related charges, and impairment of available-for-sale investments are referred to as "normalised" in this narrative to aid comparability.

Tim Score,
Chief Financial Officer

Dividend pence



Selected financial data:

Under IFRS	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Revenues	**406,595**	305,022	298,934	259,160	263,254
Cost of revenues	**(26,071)**	(25,471)	(32,878)	(28,105)	(30,877)
Gross profit	**380,524**	279,551	266,056	231,055	232,377
Total net operating expenses	**(273,565)**	(233,937)	(206,113)	(191,361)	(183,129)
Profit from operations	**106,959**	45,614	59,943	39,694	49,248
Operating margin	**26.3%**	15.0%	20.1%	15.3%	18.7%
Investment income, net	**3,068**	1,645	3,246	5,402	6,758
Profit before tax	**110,027**	47,259	63,189	45,096	56,006
Tax	**(24,053)**	(6,820)	(19,597)	(9,846)	(7,850)
Profit for the year	**85,974**	40,439	43,592	35,250	48,156
Dividends paid	**34,323**	28,961	26,383	18,547	12,367
Capital expenditure	**7,355**	6,875	8,720	5,444	8,559
Research and development expenditure	**139,750**	112,215	87,588	83,977	84,884
Cash, short – and long-term deposits	**291,829**	141,808	78,789	51,323	128,494
Shareholders' funds	**894,905**	738,697	740,343	579,162	660,926
Employees at end of year (number)	**1,889**	1,710	1,740	1,728	1,659

Revenues

Total revenues for the year ended 31 December 2010 amounted to £406.6 million (2009: £305.0 million). In US dollar terms, revenues were $631.3 million in 2010 compared to $489.5 million in 2009, an increase of 29%, against an increase in US dollar industry revenues of 23% over the same period. The average dollar exchange rate for ARM revenues in 2010 was $1.55, compared to $1.60 in 2009. As a result, the year-on-year growth in sterling revenue was slightly higher than that of US dollar revenue at 33%.

Licensing revenues

Total licensing revenues in 2010 were £132.5 million, being 33% of total revenues, compared to £98.5 million or 32% of total revenues in 2009. In US dollars, total licensing revenues in 2010 were $208.2 million compared to $164.1 million in 2009, an increase of 27%. £105.9 million of licensing revenues came from PD and £26.6 million came from PIPD. In US dollars, PD licensing revenues were $166.9 million (up 30% on $128.2 million in 2009) and PIPD licensing revenues were $41.3 million (up 15% on $35.9 million in 2009).

Royalty revenues

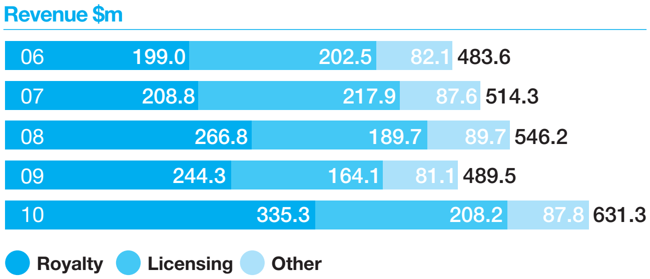
Total royalty revenues for 2010 were £217.7 million, comprising £189.4 million (2009: £132.5 million) from PD and £28.3 million (2009: £22.9 million) from PIPD. Dollar royalty revenues earned in PD were $291.5 million (including catch-up royalties of $9.0 million, reported in Q2 2010), an increase of 40% over 2009 PD royalty revenues of $208.1 million. Dollar royalty revenues in PIPD were $43.8 million (including catch-up royalties of $1.8 million), an increase of 21% over 2009 PIPD royalty revenues of $36.2 million (including catch-up royalties of $5.0 million).

Royalties in PD came from unit shipments by ARM licensees of 6.1 billion, up from 3.9 billion in 2009. This represents a 55% increase, compared with the overall industry's unit shipment growth of around 30%, demonstrating ARM's continued increase in market share with equipment manufacturers.

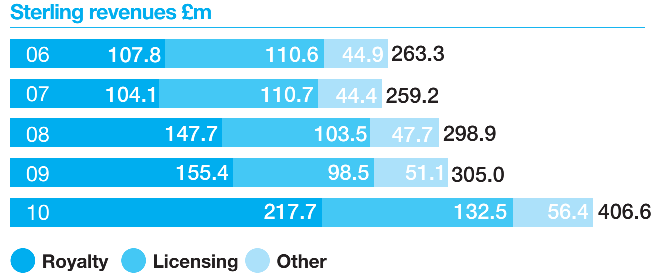
Other revenues

Total revenues from sales of development systems and services were £56.4 million in 2010, compared to £51.1 million in 2009. In US dollars, revenues from sales of development systems and services were $87.8 million in 2010, up 8% on $81.1 million in 2009.

Revenue $m



Sterling revenues £m



The following table shows normalised costs and expenses reconciled to IFRS costs and expenses:

	Normalised £000	Share-based payments £000	Intangible amortisation £000	Other acquisition-related charges £000	Disposal/impairment of investments £000	Restructuring charges £000	Linaro-related charges £000	IFRS £000
2010								
Cost of revenues	**23,255**	2,816	–	–	–	–	–	**26,071**
Research and development expenses	**107,559**	25,206	3,544	–	–	–	3,441	**139,750**
Sales and marketing expenses	**54,101**	8,005	7,395	456	–	–	151	**70,108**
General and administrative expenses	**57,341**	5,883	–	–	(37)	(373)	893	**63,707**
Total net operating expenses	**219,001**	39,094	10,939	456	(37)	(373)	4,485	**273,565**
2009								
Cost of revenues	**23,744**	1,727	–	–	–	–	–	**25,471**
Research and development expenses	**89,742**	14,817	7,656	–	–	–	–	**112,215**
Sales and marketing expenses	**48,543**	4,697	8,027	456	–	–	–	**61,723**
General and administrative expenses	**47,867**	3,458	15	–	188	8,471	–	**59,999**
Total net operating expenses	**186,152**	22,972	15,698	456	188	8,471	–	**233,937**

Profit and operating expenditure

Gross margin

Gross margin in 2010 was 93.6% compared to 91.6% in 2009. Normalised gross margin in 2010 was 94.3% (2009: 92.2%). Licensing and royalty revenues have very few direct costs and the increase in gross margin can be largely attributed to the increase in those revenues.

Operating expenses

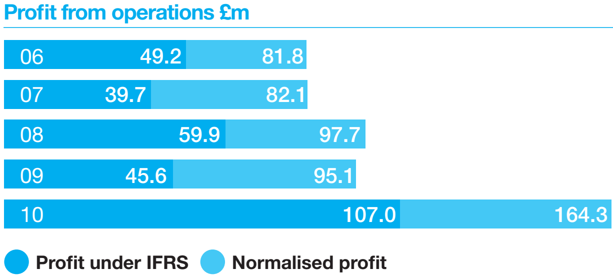
Total net operating expenses in the year to 31 December 2010 were £273.6 million, compared to £233.9 million in 2009. Normalised total operating expenses in 2010 were £219.0 million (2009: £186.2 million), an increase of 18%. This was due largely to increased staff costs, primarily as a result of the increased recruitment in research and development and also because of increased staff bonuses, following a year of record revenues.

Research and development expenses in 2010 were £139.8 million compared to £112.2 million in 2009. Normalised research and development expenses in 2010 were £107.6 million, compared to £89.7 million in 2009. As a research and development outsourcing business, the majority of our costs are people-related. Average headcount in research and development increased to 1,208 in 2010 from 1,141 in 2009. The increased investment in research and development has enabled the Group to take advantage of some new market opportunities in areas such as computing and microcontrollers and facilitated several new product launches during the year.

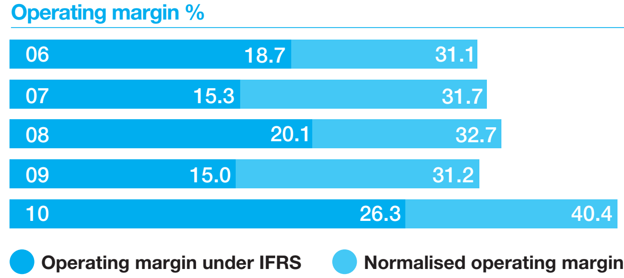
Sales and marketing costs in 2010 were £70.1 million compared to £61.7 million in 2009. Normalised sales and marketing costs in 2010 were £54.1 million compared to £48.5 million in 2009. Additional investment was made in sales and marketing during 2010, resulting in record revenues and significantly increased order backlog.

General and administrative costs in 2010 were £63.7 million compared to £60.0 million in 2009. Normalised general and administrative costs in 2010 were £57.3 million compared to £47.9 million in 2009. The increase is largely attributable to increased staff costs and foreign exchange movements.

Profit from operations £m



Operating margin %



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, restructuring charges, profit on disposal and impairment of available-for-sale investments, and Linaro-related charges:

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Profit from operations (per IFRS income statement)	**106,959**	45,614	59,943	39,694	49,248
Acquisition-related charge – amortisation of intangibles	**10,939**	15,698	19,601	19,195	19,337
Acquisition-related charge – other payments	**456**	456	382	1,735	1,057
Share-based payment costs and related payroll taxes	**41,910**	24,699	15,908	18,387	17,445
Restructuring charges	**(373)**	8,471	1,872	1,037	–
Impairment of available-for-sale investments	**(37)**	188	–	2,100	(5,270)
Linaro-related charges	**4,485**	–	–	–	–
Normalised profit from operations	**164,339**	95,126	97,706	82,148	81,817
Normalised operating margin	**40.4%**	31.2%	32.7%	31.7%	31.1%
Investment income, net	**3,068**	1,645	3,246	5,402	6,758
Normalised profit before tax	**167,407**	96,771	100,952	87,550	88,575
Tax (per IFRS income statement)	**(24,053)**	(6,820)	(19,597)	(9,846)	(7,850)
Tax impact of above charges	**(17,032)**	(19,109)	(8,524)	(12,498)	(10,350)
Normalised profit after tax	**126,322**	70,842	72,831	65,206	70,375
Normalised diluted EPS (pence)	**9.34**	5.45	5.66	4.79	5.02
IFRS diluted EPS (pence)	**6.36**	3.11	3.39	2.59	3.43

Earnings, taxation and returns to shareholders

Earnings and taxation

Profit before tax in 2010 was £110.0 million or 27% of revenues, compared to £47.3 million or 15% of revenues in 2009. Normalised profit before tax in 2010 was £167.4 million or 41% of revenues, compared to £96.8 million or 32% of revenues in 2009.

The Group's effective taxation rate in 2010 was 21.9%, compared to 14.4% in 2009. The increase was primarily due to accounting for tax on share-based payments in the respective years.

Fully diluted earnings per share in 2010 were 6.36 pence compared to 3.11 pence in 2009. Normalised diluted earnings per share in 2010 were 9.34 pence (2009: 5.45 pence).

Dividend

The directors recommend payment of a final dividend in respect of 2010 of 1.74 pence per share which, taken together with the interim dividend of 1.16 pence per share paid in October 2010, gives a total dividend in respect of 2010 of 2.90 pence per share, an increase of 20% over 2.42 pence per share in 2009. Subject to shareholder approval, the final dividend will be paid on 18 May 2011 to shareholders on the register on 3 May 2011.

Total dividends actually paid in 2010 amounted to £34.3 million (2009: £29.0 million).

Share-buyback programme

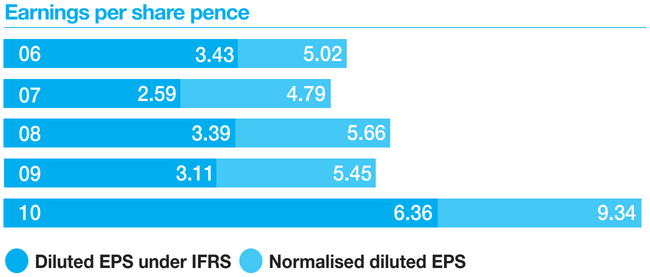
The Group initiated a rolling share-buyback programme in 2005 to supplement dividends in returning surplus funds to shareholders. Since inception, the Company has bought back 213 million shares (being 16% of issued share capital) at a total cost of £261 million.

No share buybacks were undertaken in 2010. The rolling authority to buy back shares given by the shareholders at the 2010 Annual General Meeting (AGM) remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2011 AGM.

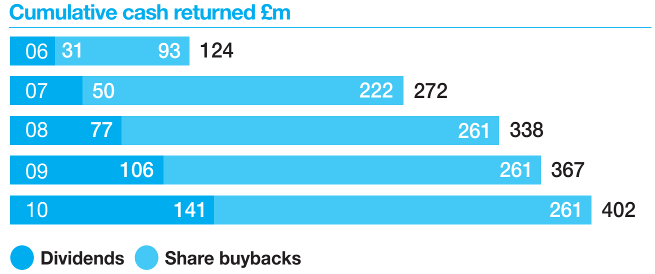
Capital structure

The authorised share capital of the Company is 2,200,000,000 ordinary shares at 0.05 pence each (2009: 2,200,000,000). The issued share capital at 31 December 2010 was 1,344,055,696 ordinary shares of 0.05 pence each (2009: 1,344,055,696). As a result of the buyback programme, the Company owns 21,624,158 of its own shares at 31 December 2010 (2009: 60,321,361).

Earnings per share pence



Cumulative cash returned £m



	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Cash and cash equivalents	**29,363**	34,489	76,502	49,509	90,743
Short-term deposits (net of accrued interest of £1,728,000)	**245,738**	105,524	471	232	18,600
Short-term marketable securities	**–**	1,795	1,816	1,582	19,151
Long-term deposits	**15,000**	–	–	–	–
Normalised cash, at end of year	**290,101**	141,808	78,789	51,323	128,494
Less: Normalised net cash, at start of year	**(141,808)**	(78,789)	(51,323)	(128,494)	(160,902)
Cash inflow from exercise of share options	**(24,015)**	(19,085)	(5,581)	(18,892)	(17,860)
Cash inflow from sale of available-for-sale securities	**(142)**	(663)	(6,291)	–	(5,567)
Add back: Cash outflow from payment of dividends	**34,323**	28,961	26,383	18,547	12,367
Cash outflow from purchase of own shares	**–**	–	40,286	128,561	76,519
Cash outflow from investments and acquisitions	**10,997**	9,679	8,400	6,014	17,435
Cash outflow from restructuring payments	**4,561**	3,450	1,872	1,037	–
Cash outflow from other acquisition-related payments	**–**	–	2,207	1,735	1,057
Cash outflow from share-based payroll taxes	**3,215**	742	577	362	653
Cash outflow from payments related to Linaro	**2,678**	–	–	–	–
Normalised net cash generation	**179,910**	86,103	95,319	60,193	52,196

Balance sheet and cash flow

Balance sheet

Goodwill at 31 December 2010 was £532.3 million, compared to £516.8 million at 31 December 2009. The increase in goodwill in 2010 is due primarily to foreign exchange movements. Goodwill is not amortised under IFRS but is subject to impairment review on at least an annual basis. The review performed in 2010 concluded that no impairment was required.

Other intangible assets at 31 December 2010 were £12.1 million, compared to £24.7 million at 31 December 2009. The movement in other intangible assets in 2010 primarily reflects amortisation of the intangible assets and foreign exchange movements. Further analysis can be found in note 16 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 2010 were £105.7 million, compared to £65.2 million at 31 December 2009. The allowance against receivables was £2.1 million at 31 December 2010, compared to £2.4 million at 31 December 2009. Deferred revenues were £92.7 million at 31 December 2010, compared to £39.6 million at the end of 2009.

Treasury

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[1].

The consolidated cash, cash equivalents, short- and long-term deposits and marketable securities balance was £290.1 million net of accrued interest of £1.7 million as at 31 December 2010 (2009: £141.8 million).

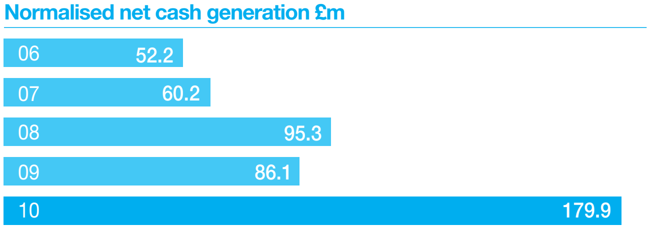
Net interest receivable was £3.1 million for 2010 compared to £1.6 million in 2009. The increase is due primarily to the higher cash balance carried by the Group throughout 2010.

Principal risks and uncertainties

The principal risks and opportunities faced by the Group are included within the "Risks and risk management" section. Details of other risks and uncertainties faced by the Group are noted within the Annual Report on Form 20-F for the year ended 31 December 2010 which is available on ARM's website at www.arm.com. Further details of the Group's internal controls and risk management procedures are included in the Corporate Governance Report.

Tim Score,
Chief Financial Officer

Normalised net cash generation £m



[1] The Group's treasury policies are discussed in detail in note 1c "Financial risk management".

Risks and risk management

ARM has a robust risk management process that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities.

ARM's risks are managed within a systematic process of risk identification and assessment. As appropriate, risks are assigned owners. An action plan is then developed to counter remaining residual elements of the risk and to further reduce the impact and probability of the risk.

A register is kept of all corporate risks and is monitored by the risk review committee, chaired by Mike Muller, Chief Technology Officer. The executive committee, the audit committee and the board ensure that the risk management process is operating effectively.

Corporate Risk Register

Corporate risks are identified and assessed within the Corporate Risk Register. The Corporate Risk Register includes a description of the risk, identifies the owner, the inherent Probability and Impact of that risk occurring, ARM's current processes and control activities, remaining residual risk and the planned activities to further mitigate it.

Risk review process

Common business risks and company-specific risks have been examined for relevance to ARM. Relevant risks are entered onto a risk review register and given an owner. Risks are classified against impact assessment criteria and probability assessment criteria.

ARM's ongoing operations may mitigate either the impact or probability of the risk. However, there can be some level of residual risk, and the risk owner determines the extent to which the residual risk is at an acceptable level, or whether further action is required. Residual risks, that are not at an acceptable level, are required to have an action plan that mitigate or further reduce the impact and/or likelihood of the risk occurring. Risk management action plans are managed within the relevant operational plans of the divisions and functions.

The risk review committee typically meets on a quarterly basis to review the Corporate Risk Register and identify other risks that need to be incorporated. The risk owner is required to demonstrate that residual risks are being appropriately mitigated via the operational plans.

Audit assurance

ARM's internal audit function regularly audits the Group's compliance to its policies, processes and procedures, including international standards and regulations. The programmes of audits provide assurance that risk management activities and policies are operating effectively.

Risk model

Licensing: slowing growth in the semiconductor industry

Trends	Risks	Opportunities
As industry growth slows companies look for other ways to grow, such as consolidating with other companies to reduce costs. In 2010, there were several examples of ARM's customer base consolidating either through acquisition of entire companies or one company acquiring the division of another. An example in 2010 was the merger between Renesas and NEC.	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. ARM is exposed to a range of markets including wireless handsets and microcontrollers. Consolidation in these parts of the industry could represent a loss to ARM's future licensing business.	Saving cost increases a company's profitability, even as revenue growth slows. ARM demonstrates to our customers how further utilising ARM technology can reduce costs across their divisions. In consolidating companies, ARM technology is often a standard both companies can integrate around. None of the consolidation we have seen to date has had a meaningful impact on ARM's licensing opportunity.
Technology companies can use their patent portfolios to generate additional revenue streams. The majority of patent disputes are resolved with companies licensing their technology to each other either as a one-off payment or as part of a cross-licensing deal. For example, we have recently seen NVIDIA license their graphics patents to Intel.	ARM is developing more functionally capable products and our technology is becoming more widely deployed in a broad range of end markets. Having a more capable product increases the risk of patent infringement, and our success may encourage a patent owner to make a claim against ARM or one of our customers.	ARM has a rich portfolio of patents that is growing as we develop new technology each year. These patents are useful not only in defending ARM technology, but also as potential currency in cross-licensing agreements with other major technology developers. From time to time ARM has entered into patent agreements with third parties.

Mobile: convergence of smartphones and laptops

Trends	Risks	Opportunities
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 companies that have demonstrated advanced technology and well-funded 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.	ARM processor-based chips for mobile computing are significantly lower-cost and lower-power than products available based on x86. ARM's licensees have already announced chips that are suitable for mobile computers, including tablets, E-book readers and netbooks. The ARM Partnership 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 mobile computers contain 3-5 chips that can incorporate ARM processor-based technology, further increasing the opportunity for ARM royalty revenues.

Non-mobile: competing in microcontrollers

Trends

Although growing strongly, in 2010 ARM had only about 10% market share of the six 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.

Risks

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 has invested a lot of effort and cost to achieve modest penetration to date. As the microcontroller chips are low-cost, the royalty revenue per device is also lower than other markets.

Opportunities

ARM believes that it can capture a significant proportion of the microcontroller (MCU) market as demonstrated by recent strong unit growth rate. 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.

The Cortex-M processor family was specifically developed for the MCU market and, by the end of 2010, had been licensed more than 80 times. In addition, the ARM community is working to ensure that as well as a broad range of ARM processor-based chips, all the software and software tools are available for end customers using established microcontroller distributors.

Beyond processors: outsourcing by semiconductor companies

Trends

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.

Risks

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 physical IP suppliers who compete in this market, some with a similar scale and scope as ARM.

Opportunities

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 2010. 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.

To view the Annual Report online visit
www.arm.com/annualreport10

Chairman's statement

An overview of our approach to corporate governance and corporate responsibility.

Awards and recognition received in 2010:
- techMARK Company of the Year
- EETimes ACE Company of the Year
- National Microelectronics Institute Excellence Awards for Low Power Design and Services to Training and Education
- CRF Institute Award as one of Britain's Top Employers in 2010
- Inclusion in the NASDAQ OMX CRD Global Sustainability 100 Index

Doug Dunn, Chairman

Introduction

ARM performed strongly in 2010, reflecting both the recovery in the overall semiconductor industry following the recession in the prior year and successful execution of our business plan. Once again, ARM outperformed the industry and we are well positioned to continue to gain market share. It is generally expected that, after a strong recovery in 2010, the semiconductor industry will see more typical growth levels in 2011.

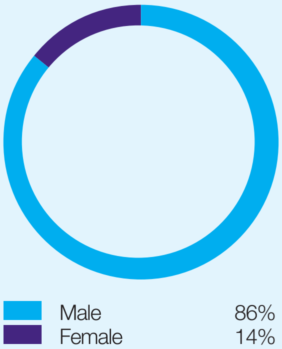
We were pleased to rejoin the FTSE 100 on 8 February 2010 and to maintain our position in this index. In 2010, our customers reported that they deployed the Group's processor designs in just over six billion chips, across an ever increasing range of products. This further demonstrates that ARM is a leader not only in processor designs for mobile computers and smartphones, but also for consumer electronics and embedded devices, such as computing, digital TV, microcontrollers, networking, smartcard and solid-state drives.

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.

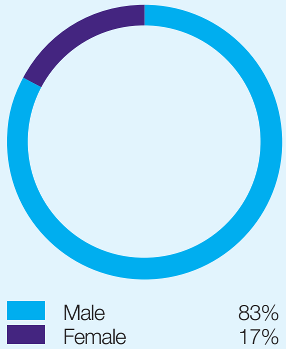
Directors and succession planning

During 2010 the nomination committee undertook an exercise to refresh the non-executive director representation on the board and we were very pleased to announce that Janice Roberts and Larry Hirst joined the board on 25 January 2011 and Andy Green joined the board on 25 February 2011. The nomination committee worked

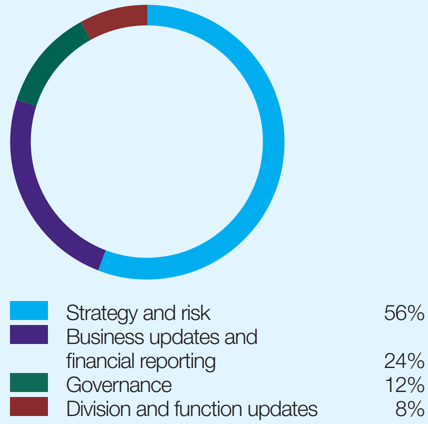
Gender split – board



Gender split – workforce



Approximate allocation of board agenda time in 2010



with external advisers, Russell Reynolds, in connection with these appointments, which bring the board back into the required balance. We were very sorry to lose the respected counsel and incisive contribution of Jeremy Scudamore, who retired for health reasons on 31 January 2011, and we thank him and wish him well for the future.

We mentioned in the 2009 Annual Report that, as part of our succession plans, John Scarisbrick will be retiring from the board at the Annual General Meeting in 2011, having served for more than nine years. The membership of all board committees underwent a full review in December 2010 and John stepped down from the remuneration committee on 16 December 2010 to make way for the new appointees.

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. The board played an important role in guiding ARM through the challenging economic environment in 2010, providing clear strategic direction and ensuring that the Group's performance and standards of conduct remained at expected levels.

The roles of the current members of the board are set out in the biographies section on pages 41 to 43.

Diversity

The board now comprises 12 men (86%) and two women (14%). The workforce as a whole is made up of 83% men and 17% women (2009: 82% men and 18% women). This is broadly in line with the gender split of engineering graduates in the UK in 2010 of 90% men and 10% women.

Corporate governance framework and role of the board

The Group's corporate governance framework is built around three pillars:

- organisation and structure;
- the internal control framework; and
- independent assurance.

ARM highly values corporate governance and this is reflected in our governance principles, policies and practices and 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. During 2010, the Group complied with the Combined Code on Corporate Governance 2008, with the two minor exceptions noted in the Corporate Governance Report. We note the provisions of the UK Corporate Governance Code 2010 which is applicable for accounting periods beginning on or after 29 June 2010. To the extent that the Group does not already comply with this and, as new regulations and guidance are published, the Group will aim to comply fully with any changes and best practice principles within a reasonable timescale.

The Group continued to comply with the requirements of the Sarbanes-Oxley Act 2002 (US).

The board's core activities include:

- providing leadership for the Group;
- active engagement in developing the Group's long-term strategy;
- monitoring executive actions, standards of conduct, performance against business plans and budgets and ensuring that the necessary financial and human resources are in place for it to meet its objectives;
- obtaining assurance that material risks to the Group are identified and appropriate systems of risk management and control exist to mitigate such risks and defining the Group's appetite for risk; and
- board and executive management succession.

All directors and employees are required to act fairly, honestly and with integrity and they are required to demonstrate that they have read and understand our 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, operating budgets and capital expenditure. 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 on Corporate Governance Code 2008. 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 for making proposals to the board in relation to 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.

Remuneration

ARM maintained its conservative approach to remuneration in 2010, in line with market uncertainty around the timing and scope of the global economic recovery. We continued to be able to retain and recruit the talented people who are critical to the continued success of our business.

Despite the tough market conditions the minimum targets, established three years ago under the Long Term Incentive Plan, were exceeded and our teams have been rewarded for their performance. Details are set out in full in the remuneration report. The board is not proposing any new remuneration schemes or any changes to the Long Term Incentive Plan in 2011. It is intended that the maximum bonus payable under the Deferred Annual Bonus Plan to the executive team will increase from 125% of base salary to 150% of base salary for 2011 and beyond. This change follows a review of executive remuneration by Towers Watson which was undertaken during 2010 and which included an analysis of remuneration packages in comparable companies. The remuneration committee has approved this change, which will bring the variable element of executive pay more in line with market practice among our peers. More detail on executive remuneration is set out in the remuneration report.

Corporate responsibility

In 2010, ARM's commitment to environmental, social and governance issues was recognised by the NASDAQ OMX CRD Global Sustainability 100 Index which ranked ARM among the top 100 companies in the world for sustainability. More than 3,000 global companies were evaluated on 200 complex and diverse performance metrics in order to establish individual, quantitative ratings of sustainability.

ARM has further strengthened its commitment to leadership in corporate responsibility by joining the United Nations Global Compact and Caring for Climate initiatives and through forming a new partnership with the International Business Leaders Forum to explore how technology can help to develop a low-carbon economy and improve livelihoods in developing countries.

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.

Our commitment to the environment extends beyond the energy efficiency and power saving that ARM technology-based chips help to achieve. In 2010 ARM worked with the American Council for an Energy-Efficient Economy (ACEEE) to help found its intelligent efficiency advisory board, which is made up of a group of industry representatives who help to advance the research agenda and associated policy debate on the importance of IT in achieving the step change needed in energy efficiency. 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. ARM is improving its strategy for low carbon business operation and during 2010 we set goals of:

- 30% emission reduction in tons of CO_2 emission per employee by 2020; and
- 15% energy use reduction measured in KW hours per employee by 2020.

We will be monitoring and reporting on our performance against these goals annually.

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.

More details about our approach to corporate responsibility are set out in the Corporate Responsibility Report on page 52.

2010 marks ARM's 20th anniversary

ARM celebrated its 20th anniversary in November 2010. 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 21st year as leader in our market, I would like to thank the teams worldwide who have contributed to making ARM a great success story.

Our stakeholders and Partners will continue to benefit from our open, clear and consistent approach in 2011 and beyond as we expand into our targeted market segments and position ARM for the next 20 years.

Doug Dunn
Chairman

Board of directors

Board members' biographies which outline the experience they bring to the team.

Doug Dunn age 66

Responsibilities

Chairman

Committees

Nomination Committee (Chairman)

Current directorships

ST Microelectronics N.V. (Non-Executive Director)

Soitec S.A. (Non-Executive Director)

TomTom N.V. (Non-Executive Director)

B E Semiconductor Industries N.V. (Non-Executive Director)

Expertise

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.

Warren East age 49

Responsibilities

Chief Executive Officer

Committees

None

Current directorships

De La Rue plc (Non-Executive Director and Chairman of the Audit Committee)

Expertise

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.

Tudor Brown age 52

Responsibilities

President

Committees

None

Current directorships

ANT plc (Non-Executive Director)

Expertise

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. He currently sits on the UK Government Asia Task Force.

Tim Score age 50

Responsibilities

Chief Financial Officer

Committees

None

Current directorships

National Express Group plc (Non-Executive Director and Chairman of the Audit Committee)

Expertise

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.

Mike Inglis age 51

Responsibilities

EVP and General Manager, Processor Division

Committees

None

Current directorships

Pace plc (Non-Executive Director)

Expertise

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.

Simon Segars age 43

Responsibilities

EVP and General Manager, Physical IP Division

Committees

None

Current directorships

SOI Industry Consortium
EDA Consortium

Expertise

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.

Mike Muller age 52

Responsibilities

Chief Technology Officer

Committees

None

Current directorships

Linaro Limited

Expertise

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.

Kathleen O'Donovan age 53

Responsibilities

Senior independent non-executive director

Committees

Audit Committee (Chairman)
Nomination Committee
Remuneration Committee

Current directorships

Invensys Pension Trustee Ltd (Chairman)
Prudential plc (Non-Executive Director)
International Rescue Committee UK (Non-Executive Director)
Trinity Mirror plc (Non-Executive Director and Chairman of the Audit Committee)

Expertise

Kathleen O'Donovan joined the board in December 2006. 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 58

Responsibilities

Independent non-executive director

Committees

Remuneration Committee (Chairman)
Audit Committee
Nomination Committee

Current directorships

HMV Group plc (Non-Executive Director)
Misys plc (Non-Executive Director)
Livestation Limited (Chairman)
Promethean World plc (Non-Executive Director)

Expertise

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.

Young Sohn age 55

Responsibilities

Independent non-executive director

Committees

Nomination Committee
Remuneration Committee

Current directorships

Cymer, Inc. (Non-Executive Director)
Inphi Corporation Inc (CEO)

Expertise

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 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.

John Scarisbrick age 58

Responsibilities

Non-executive director

Committees

Nomination Committee

Current directorships

Netronome Systems, Inc. (Executive Chairman)
Innovative Silicon, Inc. (Non-Executive Director)

Expertise

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.

Andy Green age 55

Responsibilities

Independent non-executive director

Committees

Remuneration Committee

Current directorships

Logica plc (CEO)

Expertise

Andy Green joined the board in February 2011. He has been CEO of Logica plc, a £3.7 billion business and technology service company employing 39,000 people, since 2008. He is a former CEO of BT Global Services and a former CEO of Group Strategy and Operations at BT plc and was CEO of BT Openworld. He is Chair of e-Skills UK (the UK Sector Skills Council for Business and Information Technology), is on the board and the President's Committee of the CBI and is a Companion of the Chartered Management Institute.

Janice Roberts age 55

Responsibilities

Independent non-executive director

Committees

Audit Committee

Current Directorships

Mayfield Fund
RealNetworks, Inc.

Expertise

Janice Roberts joined the board in January 2011. She has been a Managing Director at Mayfield Fund since 2000, a Silicon Valley-based venture capital firm with approximately $3 billion under management, where she focuses on the mobile, wireless, communications and consumer technology industries. Prior to that, she held various executive positions at 3Com Corporation including President Palm Computing, President 3Com Ventures and Senior Vice President, Business Development and Global Marketing. She is a director of several private technology companies.

Larry Hirst age 59

Responsibilities

Independent non-executive director

Committees

Audit Committee
Remuneration Committee

Current directorships

MITIE Group plc (Non-Executive Director)

Expertise

Larry Hirst joined the board in January 2011. He is the former Chairman of IBM Europe, Middle East and Africa. He retired from IBM in 2010 having previously held a wide range of senior positions since joining the company in 1977. He is also a Commissioner at the UK Government's Commission for Employment and Skills and Chairman of the UK Trade and Investment Executive Board, responsible for driving the UK's trade and investment objectives in the telecoms and IT sectors. He was awarded a CBE in 2007.

Lucio Lanza retired from the board on 14 May 2010 and Jeremy Scudamore retired from the board on 31 January 2011.

Corporate governance

This section and the remuneration report detail how the Group has applied the principles of good governance contained in the Combined Code on Corporate Governance 2008.

Compliance with the Combined Code on Corporate Governance Code 2008 (UK) and the Sarbanes-Oxley Act 2002 (US)

The Group has complied with the provisions of the Combined Code on Corporate Governance 2008, with the following exceptions:

B.1.1 John Scarisbrick completed nine years' service as an independent non-executive director in August 2010. The board continues to regard him as independent through his conduct and the challenging contributions he makes both at and between board meetings. He stepped down from the remuneration committee on 16 December 2010 and is no longer included in the number of independent non-executive directors for the purposes of assessing board balance. He will retire from the board at the 2011 AGM.

B.1.2 Between the retirement of Lucio Lanza at the AGM on 14 May 2010 and 25 January 2011 there were five non-executive directors (all of whom were regarded as independent until August 2010 when John Scarisbrick reached his ninth anniversary) and six executive directors.

The Group achieved full compliance with the requirements of s404 of the Sarbanes-Oxley Act 2002 for the fifth successive year.

Composition and operation of the board

The Combined Code on Corporate Governance 2008 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, one non-executive director 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 2010 or to date in 2011 and no situations were or have since been 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 independent 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. Kathleen O'Donovan became the Senior Independent Director upon the retirement of Jeremy Scudamore on 31 January 2011. The Senior Independent Director provides a communication channel between the Chairman and non-executive directors and is available to discuss matters with shareholders, if required.
Janice Roberts and Larry Hirst (who joined the board on 25 January 2011), Andy Green (who joined the board on 25 February 2011), 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.

Board meeting attendance

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 2010 financial year:

	Scheduled board meetings	Conference calls/ ad hoc meetings
Number	**6**	**5**
Doug Dunn	6/6	4/5
Warren East	6/6	5/5
Tudor Brown	6/6	2/5
Mike Inglis	6/6	5/5
Lucio Lanza (retired 14 May 2010)	2/3	2/2
Mike Muller	6/6	4/5
Kathleen O'Donovan	6/6	2/5
Philip Rowley	6/6	5/5
John Scarisbrick	6/6	4/5
Tim Score	6/6	4/5
Jeremy Scudamore	6/6	5/5
Simon Segars	6/6	4/5
Young Sohn	6/6	4/5

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.) and he does not chair any other board.

Non-executive directors have the opportunity to influence agendas for board discussions and in 2010 were active in setting the agenda for the 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 Processor Division Design Centre in Austin, Texas in 2010. 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 2010, the Chairman held at least three 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.

Communicating with our shareholders

ARM is committed to regular, clear and consistent communication with our investors and our website contains all the essential information for shareholders, analysts and institutional investors.

Information and communication with shareholders and other stakeholders

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 on the following pages.

The board makes considerable efforts to establish and maintain good relationships with shareholders. There is regular dialogue with institutional investors during the year other than during close periods. The main channel of communication continues to be through the Chief Executive Officer, the Chief Financial Officer and the VP of Investor Relations, although the Chairman, the Senior Independent Director and the other directors are available to engage in dialogue with major shareholders as appropriate. 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.

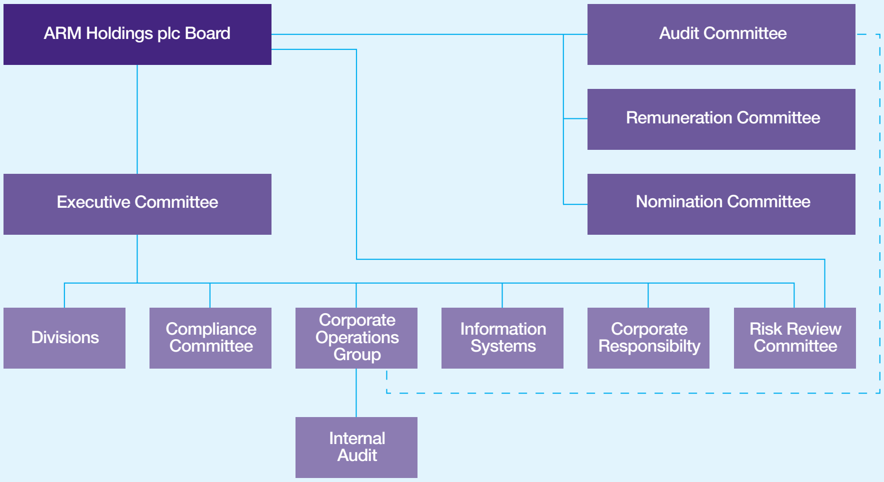
We continued to develop our engagement with other stakeholders in 2010, strengthening our relationships and expanding the ARM network of Partners and our Connected Community.

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, helping to design courses and textbooks, and providing technical support and training to students and faculties. In 2010 the programme strengthened its commitment to institutions in India, South America and China to nurture growing talent. ARM and our Partners are seeing the benefit of the University Programme as students graduate with experience in designing with ARM products and as university engineering departments base their own research around ARM technology.

At present, around 28 sell-side 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 in turn 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 AGM, scheduled for 12 May 2011, 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 2011 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.



Management structure
The Group has a traditional UK board structure with a unitary Group board comprising the Chairman, executive and non-executive directors. The audit and remuneration committees are made up of independent non-executive directors and they, together with the nomination committee, report to the board. The divisions and functions report to the executive committee. The risk review committee reports periodically to the executive committee, audit committee and the board. The head of the Corporate Operations Group also has a separate reporting arrangement to the Chairman of the audit committee.

Board evaluation, induction and training

The board undertakes an annual board evaluation. During 2010, this exercise was conducted with the assistance of external advisers, Independent Audit, who observed a board meeting, reviewed board papers and had in-depth individual discussions with all directors, other key executives and the external audit partner. They presented their findings to the board in December 2010. Their detailed report and recommendations were discussed in detail in January 2011 and agreed actions will be implemented during 2011.

The evaluation covered:

- the work of the board;
- board committees;
- succession planning; and
- process and practicalities.

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.

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. They also receive guidance on the regulatory regimes and corporate governance framework that the Group operates under. 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 2010, the board received an update from the Company Secretary 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.

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 Divisions and Media Processing Business Unit, 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.

Audit committee

"In the very challenging economic climate during 2010, the committee's focus has been on financial performance and oversight of the way the Group addresses risk. In 2011 the board anticipates spending more time reviewing its appetite for and approach to risk."

Kathleen O'Donovan, Committee Chairman from January 2011

Name of director	Position	Meetings attended
Philip Rowley	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	4/4

During 2010 Philip Rowley was the financial expert as defined in the Sarbanes-Oxley Act 2002 (US). Kathleen O'Donovan is also qualified to fulfil this role and became the financial expert on 26 January 2011 when she assumed the chairmanship of the committee. Both have recent and relevant financial expertise. The external auditors, Chief Executive Officer, Chief Financial Officer, the VP Corporate Operations, the Head of Tax 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.

As part of the process to refresh the board and its committees, Janice Roberts and Larry Hirst joined and Young Sohn and Jeremy Scudamore stepped down from the audit committee on 26 January 2011.

During the year, the activities of the committee included:

- a review of the risk assessment and mitigation processes and development of an enhanced Corporate Risk Register giving the board greater visibility of risk assessment and mitigation within the Group;
- reviewing the 2010 internal and external audit plans and reports on overseas subsidiaries;
- considering and approving the assumptions in the annual impairment review, prior to approval by the full board;
- reviewing the status of Sarbanes-Oxley compliance and testing;
- re-approval of the pre-approved non-audit services policy; and
- reviewing the external auditors' performance, effectiveness, independence and fees, the results of which have enabled us to recommend the reappointment of PricewaterhouseCoopers LLP.

The committee's other 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 external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every fifth year end and the current lead audit partner has been in place since July 2007. The audit committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. This view was supported by a review of the effectiveness of the external audit process which was undertaken early in 2011 involving the audit committee, the executive team and senior managers who interact with the auditors. It looked at robustness of audit, quality of delivery and quality of people and service and concluded that the services provided by the auditors and their mode of delivery are effective. Accordingly, the audit committee has not considered it necessary to date to require the firm to tender for the audit work.

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". Through this process, the committee has concluded that the auditors are independent.

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.

Nomination committee

"We spent a considerable amount of time and effort in 2010 defining the skills and attributes required for the new non-executive director appointments and in interviewing prospective candidates."

Doug Dunn, Committee Chairman

Name of director	Position	Meetings attended
Doug Dunn	Chairman	4/4
Lucio Lanza (resigned 14 May 2010)	Independent non-executive director	0/1
Kathleen O'Donovan (appointed 14 May 2010)	Independent non-executive director	3/3
Philip Rowley	Independent non-executive director	4/4
John Scarisbrick	Non-executive director	4/4
Young Sohn (appointed 16 December 2010)	Independent non-executive director	N/A

During the year, the activities of the committee included:

- successfully achieving our objective of identifying three suitable new independent non-executive directors and recommending their appointment to the board;
- engaging an external search firm, Russell Reynolds, to seek and introduce suitable candidates and we were very pleased to welcome Janice Roberts and Larry Hirst to the board in January 2011 and Andy Green in February 2011; and
- as part of the process to refresh the board and its committees, Kathleen O'Donovan and Young Sohn joined the nomination committee on 14 May 2010 and 16 December 2010 respectively.

The committee's other responsibilities include:

- leading the process for board appointments and making recommendations to the board in relation to new appointments of executive and non-executive directors;
- reviewing succession planning, board composition and balance; and
- considering the roles and capabilities required for each new appointment, based on an evaluation of the skills and experience of the existing directors.

Remuneration committee

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

Internal control/risk management

The Group fully complies with the Combined Code on Corporate Governance 2008'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 and approved the system of internal control, including internal controls over the consolidation process and financial reporting, which have been in place for the year under review and up to the date of approval of the annual report and financial statements. These controls consist of extensive reviews by qualified and experienced individuals underpinned by a system of checklists that ensures that all elements of the financial statements and appropriate disclosures are considered and accurately stated.

Control 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.

The board will be formally reviewing and documenting its risk appetite during 2011.

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.

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: 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

The Group has 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 implemented during 2010 which enhanced the internal audit function through rebalancing the emphasis between operational and financial audit. These included a more formal and rigorous risk assessment process, a broadening of the scope of the internal audit programme and an increase in the financial capability within the Corporate Operations Group.

The Group's management system documents processes and responsibilities across all business functions and operations. As an autonomous part of this system, the internal 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 internal 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 2010 or up to 25 February 2011, 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 2010 and none up to 25 February 2011, 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 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. The Group's Code of Business Conduct and Ethics, which is available on the Group's website, and the Company Rules have been updated in response to the Bribery Act 2010 and will be updated further when the Government guidance is issued. Further training will be given to all employees and arrangements with contractors and suppliers have been and will continue to be reviewed and updated as appropriate to reflect the requirements of the Act.

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.

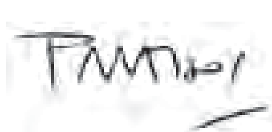
A number of environmental initiatives have continued in 2010. The Group's environmental policy is published on its website within the CR report. An environmental action plan is in place, including monitoring energy usage, resource consumption and waste creation so that targets set for improvement are 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 report

ARM is committed to implementing and developing best practice Corporate Responsibility (CR) in our market segment and intends to become a leader for CR in the sector.

ARM's CR strategy encompasses accountability to all stakeholders, including employees and their families, providing excellent service to our Partners and shareholders, fostering good relationships with suppliers, on-going involvement with local communities and minimising our impact on the environment as well as designing energy efficient products. During 2010, ARM joined the United Nations Global Compact (UNGC), an initiative for businesses that are committed to aligning their operations and strategies in the areas of human rights, labour, environment and anti-corruption. In the year ARM took an active role by convening an IT Sector panel at the World Climate Summit and joined the UN Caring for Climate initiative. We also entered a partnership with the International Business Leaders' Forum (IBLF) to explore how the better use of technology can reduce energy consumption and improve living standards globally.

ARM's continued success has been achieved through the strength and depth of our stakeholder relationships. Our corporate governance framework and processes enable us to manage the Group effectively and to demonstrate transparent, consistent and effective governance so that we remain accountable to our shareholders, employees, partners, suppliers and the local, regional, and national communities we support and with whom we interact.

As part of our effort to improve stakeholder communications, we enhanced our CR Report in 2010 guided by the Global Reporting Initiative, the most widely used sustainability reporting structure, to aid transparency and consistency. To take this further, ARM is the one of the first companies to incorporate the UNGC's 50-point Blueprint for Sustainability Leadership into its full 2010 CR Report which is available on our website at www.arm.com.

Employees

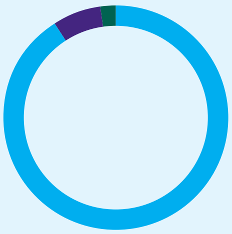
The welfare of ARM's employees around the world is one of our top priorities. ARM's Corporate Vision and its Management Charter include commitments to provide a sector-leading environment for employees to develop their personal and collective potential. The interests of employees and shareholders are aligned by providing equity participation to all employees through restricted shares under the Employee Equity Plan and the opportunity to buy shares through savings plans. When ARM's quarterly results are published, members of the executive committee also present the same results internally. ARM also provides periodic question and answer sessions at each site led by an executive committee member where "no question is off limits".

We have established a Global Equal Employment Opportunities policy covering the recruitment, transfer and promotion of staff as well as their training and development. 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 employees' personal aspirations.

ARM provides a number of assistance and wellness programmes to employees and their families including private medical insurance, travel and life insurance, pensions/401k plans, sabbaticals, sick pay, holiday pay, employee counselling, flexible working, on-site physiotherapy and athletic training. ARM also offers family-friendly programmes such as maternity, paternity and parental leave, a child care voucher scheme in the UK and a flexible spending account in the US.

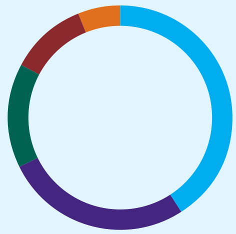
Employee consultation groups advise the Group on various issues that impact employees and a comprehensive global opinion survey is conducted every two years to monitor employees' views and provide valuable input on internal operations. The focus of the 2010 survey was employee engagement, which is summarised on page 54.

All employees by contract type



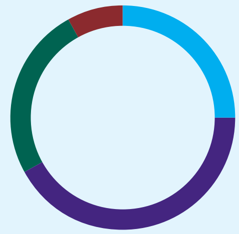
Established employees	91%
External	7%
Fixed term	2%

Established employees by region



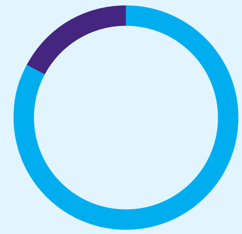
UK	41%
US	27%
India	15%
Continental Europe	11%
Far East/Asia	6%

Established employees by age group



21-30	25%
31-40	42%
41-50	25%
51-60	8%

Established employees by gender



Male	83%
Female	17%

Gender split of engineering graduates in the UK in 2010: 90% men, 10% women.

Ecosystem

ARM maintains continuous efforts to achieve class-leading levels of customer and ecosystem partner satisfaction, measured through regular surveys and feedback channels including an annual worldwide ARM Partner Meeting and ARM Technology Conferences held in India, Asia and the US.

As part of our commitment to the World Climate Summit, IBLF and UNGC we work continuously with our Partners to improve sustainability across the ecosystem. ARM collaborates with research and development organisations such as university science and engineering programmes worldwide. We also participate in EU-funded research to improve the efficient and responsible use of ARM-powered products.

Customers

ARM has built its business around a partnership model, working together with our customers to enable mutual success. Engagement with customers happens at many levels in the organisation, from the executive committee level, through sales, marketing and engineering. Customer satisfaction is monitored and reviewed by management to identify a range of key metrics to be monitored including: product and project delivery dates; product quality levels; customer support satisfaction and direct feedback gathered from customers and elsewhere in the ecosystem. The output is reviewed by management which, in turn, raises any pertinent issues with the executive committee.

Suppliers

As a Group which does not have any manufacturing operations, ARM has a limited number of suppliers. Central procurement functions were enhanced in 2010 and the introduction of new policies and procedures, with training workshops, have enabled ARM to standardise the procurement screening and feedback processes across the Group. This new procurement system has enabled the introduction of corporate responsibility requirements so that any new supplier must demonstrate that they have a compatible ethical policy in place. ARM's sources its electricity from renewable energy suppliers wherever possible.

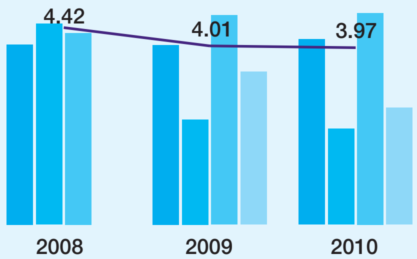
Surrounding communities

ARM undertakes many initiatives within the communities in which it functions. In 2010, ARM invested £2.5 million in an interest-free charitable bond for Cambridge-based social enterprise Future Business, to support a new incubation centre. The bond is the biggest philanthropic investment ever made by ARM. The investment was made because Future Business supports all four elements of ARM's corporate giving policy: Clean Technology, Education, Entrepreneurship and the Local Community.

ARM's University Programme helps the next generation of ARM engineers by donating equipment and software, assisting students, helping to design courses and providing technical support and training. ARM is involved in a number of STEM (science, technology, engineering and mathematics) programmes at regional schools, sharing employees' expertise with students. From corporate philanthropy, to paid employee volunteer time, to the Matching Gift Donation programme, the Group actively encourages community involvement and support.

ARM is a founding member of The Learning Collaboration, enabling small and medium sized organisations around Cambridge to share their diverse experience and combine their buying power to purchase quality training and development services. ARM is also a founder of the Cambridge Network which links people from business and academia to the global high-tech community. This year, ARM partnered with The Humanitarian Centre to encourage research and partnerships that improve the efficacy of information technology in international development. ARM has also helped found the Cambridge Responsibility Forum, a joint venture between multiple local businesses to promote corporate responsibility and sustainability issues in Cambridge.

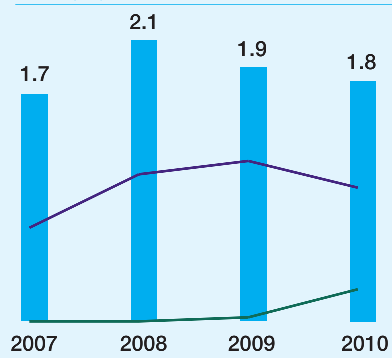
Global CO_2 emissions*
tonnes/employees



Cambridge, UK
San Jose, CA
Bangalore, India
Austin, TX**
Overall

* Largest 4 offices, 78% of the Estate Portfolio.
** Data not available for 2008.

UK waste and recycling*
m³/employee**



General waste
Cardboard and paper recycled
Plastics and glass recycled

* All UK offices: Cambridge, Blackburn, Sheffield, Maidenhead, 41% of total headcount.
** Average number of all employees in year.

Team ARM, the Group's global team building and fund-raising employee network, raised over £93,000 for charities through sponsored cycle rides, marathons, boat races and even moustache growing.

Environment

An expanding global population, rising energy costs and climate change concerns are all driving renewed interest in energy efficiency. ARM's technology is inherently low-power and enables smarter, more energy efficient products to be created. As ARM-designed chips are in over 20% of all digital electronic products sold in 2010, this presents an enormous opportunity for improved efficiency.

For 20 years, ARM's research and development has focussed on getting the best processing performance from the least power. ARM technology allows partners to develop smarter digital electronic products that can measure, manage and improve the environmental performance of consumer electronics and IT equipment, reducing the carbon footprint for many consumer products.

ARM actively monitors energy usage, resource consumption, waste creation, suppliers' environmental management systems and its own carbon footprint so that targets can be set for improvements that are realistic and meaningful.

ARM is improving its strategy for low carbon business operation, and has set goals of:

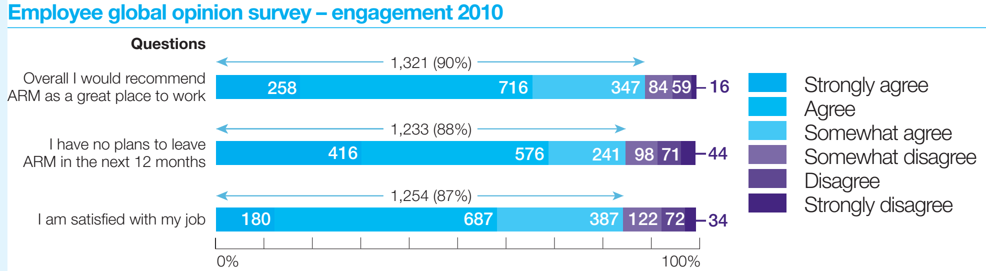
- 30% emission reduction in tons of CO_2 emission per employee by 2020; and
- 15% energy use reduction measured in KW hours per employee by 2020.

These goals are also in line with the Environmental Issues Area of the UNGC. The goals are tracked monthly and reported to ARM management as well as stakeholders. We are also reviewing behavioural change issues relating to the adoption of existing video-conferencing facilities and are investing in more equipment with a view to reducing the number of flights per employee each year.

Conclusion

ARM makes good corporate citizenship a priority and external evaluators have recognised this. ARM is in the NASDAQ OMX CRD Global Sustainability 100 Index, demonstrating how corporate responsibility has been incorporated throughout the ARM way of business. CRD Analytics evaluated more than 3,000 global companies in order to establish these individual, quantitative ratings of sustainability. This section is intended to provide a brief overview; our full CR Report for 2010 is published on our website at www.arm.com.

Employee global opinion survey – engagement 2010



Percentage of respondents
1,490 (80%) employees responding

Overall engagement score: 86%

Directors' report

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2010.

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, fabric IP, video processors, 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; 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 overview and business review on pages 1 to 29, the financial review incorporating a section on principal risks and uncertainties on pages 30 to 37, the Chairman's statement on corporate governance and corporate responsibility on pages 38 to 40 and the corporate responsibility report on pages 52 to 54. The Group's statement on corporate governance can be found in the corporate governance report on pages 44 to 51 of these financial statements. The principal risks and uncertainties section of the financial review and the corporate governance report form part of this directors' report and are 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 the semiconductor industry, the Group is presented with many opportunities to acquire complementary technology or resources and it intends to continue to make appropriate investments and acquisitions from time to time.

Going concern

After dividend payments of £34.3 million in 2010, the highly cash generative nature of the business enabled the Group to increase its cash, cash equivalents, short- and long-term deposits and marketable securities balance to £290.1 million (net of accrued interest of £1.7 million) at the end of 2010 from £141.8 million at the start of the year. After reviewing the 2011 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.

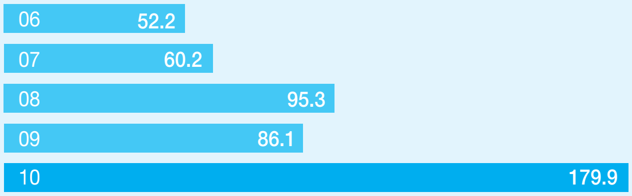
Dividends

The directors recommend payment of a final dividend in respect of the year to 31 December 2010 of 1.74 pence per share which, subject to approval at the AGM on 12 May 2011, will be paid on 18 May 2011 to shareholders on the register on 3 May 2011. This final dividend, combined with the interim dividend of 1.16 pence per share paid in October 2010 , makes a total of 2.90 pence per share for the year, an increase of 20% on the total dividend of 2.42 pence per share for 2009.

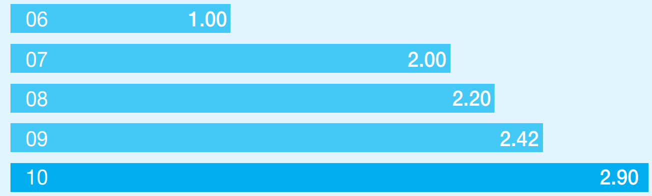
Share buyback programme

No share buybacks were undertaken in 2010 and no shares have been re-purchased to date in 2011. The rolling authority to buy back shares given by the shareholders at

Net cash generation £m



Dividend pence



the AGM in May 2010 remains in place and a resolution to authorise the directors to make purchases in appropriate circumstances will be proposed at the 2011 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 world-wide and plans to continue its successful engagement with Michigan University. Key areas of product development for 2011 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 continue to develop and deliver 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 £139.8 million in 2010, representing 34% of revenues, compared with £112.2 million in 2009. 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 £37,834 (2009: £34,292). The total amounts given for each such purpose were:

	£
Medical research	11,595
Local charities	9,025
Relief of poverty	6,626
Other	6,586
Promotion of education	4,002

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. The Group does not make any political donations. The Group invested £2.5 million in an interest-free charitable bond with Future Business, as described in more detail in the Corporate Responsibility Report.

Directors in the year

The following served as directors of the Company during the year ended 31 December 2010:

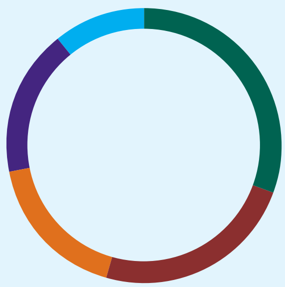
Doug Dunn OBE (Chairman)
Warren East (Chief Executive Officer)
Tim Score (Chief Financial Officer)
Tudor Brown (President)
Mike Muller (Chief Technology Officer)
Mike Inglis (General Manager, Processor Division)
Simon Segars (General Manager, Physical IP Division)
Lucio Lanza (independent non-executive director) (retired 14 May 2010)
Kathleen O'Donovan (independent non-executive director and financial expert)
Philip Rowley (independent non-executive director and financial expert)
John Scarisbrick (Non-executive director)
Jeremy Scudamore (Senior Independent non-executive director) (retired 31 January 2011)
Young Sohn (independent non-executive director)

Kathleen O'Donovan became Senior Independent non-executive director on 31 January 2011 following the retirement of Jeremy Scudamore.

Election and re-election of directors

Janice Roberts and Larry Hirst joined the board as independent non-executive directors on 25 January 2011 and Andy Green joined the board as an independent non-executive director on 25 February 2011. All will be standing for election at the 2011 AGM. In line with the provisions of

Charitable donations



Medical research	£11,595
Local charities	£9,025
Relief of poverty	£6,626
Other	£6,586
Promotion of education	£4,002

Percentage of issued ordinary share capital

Janus Capital Management	5.9%
Thornburg Investment Management	5.0%
FMR	5.0%
Legal and General Investment Management	3.8%

the UK Corporate Governance Code 2010, all directors will stand for election or re-election annually.

(See pages 41 to 43 for the biographies of the directors at the date of this report).

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 2010, 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 (2009: 1,344,055,696) of which 21,624,158 ordinary shares were held in treasury (2009: 60,321,361). 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 25 February 2011:

	Percentage of issued ordinary share capital
Janus Capital Management	5.9%
Thornburg Investment Management	5.0%
FMR	5.0%
Legal and General Investment Management	3.8%

Save for the above, the Company has not been notified, as at 25 February 2011, 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.

In line with the UK Corporate Governance Code 2010, at the 2011 AGM and future AGMs all directors will present themselves for re-election (if eligible) 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 articles of association.

At the 2010 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 2011 AGM or 30 June 2011.

Accordingly, resolution 21 will be proposed as a special resolution at the 2011 AGM to give ARM authority to acquire up to 134,508,636 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 19 to be proposed at the 2011 AGM will authorise the directors generally to allot up to £221,939 in nominal amount of ordinary shares and, in addition, will authorise the directors to allot up to a further £221,939 in nominal amount of ordinary shares in connection with a "rights issue" (as defined in resolution 19). Further, resolution 20 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 20) up to an aggregate nominal amount of £33,627 or (ii) in connection with a pre-emptive offer up to an aggregate nominal amount of £33,627, or (iii) in connection with a rights issue up to a further nominal amount of £33,627, 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 2012 AGM or on 30 June 2012.

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.

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 2010 were equivalent to 16 days' purchases for the Group (2009: nine days) and nil days for the Company (2009: 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 a large number of contracts in place with the Group's Partners which are described in more detail in the business review. 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 12 May 2011 at 2.30pm. 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 2011 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 30 to 37.

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 41 to 43 confirm that to the best of each person's knowledge and belief:

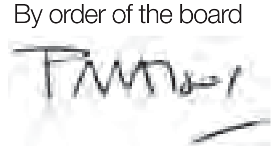
- the financial statements, prepared in accordance with IFRS as adopted by the EU (UK GAAP for the Company), give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the directors' report and the financial review on pages 30 to 37 include a fair 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

This detailed remuneration report seeks to give full consideration to the principles set out in the Combined Code on Corporate Governance 2008.

Remuneration committee

"Our long-term objective is to ensure that the Group attracts and retains the best quality management skills necessary to achieve a high level of corporate performance, in line with the interests of shareholders, and to maintain a remuneration policy and framework for executive directors to achieve this."

Philip Rowley, Committee Chairman 2011

Name of director	Position	Meetings attended
Jeremy Scudamore (Chairman 2010)	Senior Independent Director	3/3
Kathleen O'Donovan	Independent non-executive director	3/3
John Scarisbrick (member until 16 December 2010)	Non-executive director	3/3
Young Sohn	Independent non-executive director	3/3

As part of the process to refresh the board and its committees, Philip Rowley joined the remuneration committee on 25 January 2011 and took over as Chairman in place of Jeremy Scudamore on 31 January 2011, Larry Hirst joined the committee and Kathleen O'Donovan stepped down as a member on 25 January 2011. In addition, John Scarisbrick retired from the committee on 16 December 2010 and Andy Green joined the committee on 25 February 2011. The current membership of the committee is Philip Rowley (Chairman), Young Sohn, Larry Hirst and Andy Green.

During the year, the activities of the committee included a review of potential advisers, after which Towers Watson were appointed by the committee and undertook a review of executive remuneration.

The committee's other responsibilities include:

- 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;
- making recommendations in relation to the remuneration of senior management including members of the executive committee; and
- liaising 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 on Corporate Governance 2008 and the Listing Rules of the Financial Services Authority.

The committee's terms of reference are published on the corporate website at www.arm.com. Given their diverse business experience, the independent non-executive directors who made up the committee in 2010 and the new members who joined the committee in 2011 offer a balanced view and international expertise in relation to remuneration matters for the Group.

Remuneration Review 2010

The committee has access to independent professional advice from external advisers in the furtherance of its duties and makes use of such advice.

During 2010 after a review of potential advisers, Towers Watson were appointed by the committee and undertook a review of executive remuneration, including a detailed comparison of the composition of the remuneration packages for the executive directors and key senior managers against those offered by appropriate peer companies. Their main conclusion was that the base salaries were below median relative to other companies of similar market capitalisation. The amount of leverage was normal and total reward was constrained by the level of base salaries. The maximum bonus under the Deferred Annual Bonus Plan (DAB) was below the market norm and it was recommended that this be increased from 125% to 150%. This change was approved by the remuneration committee in December 2010 to apply to bonuses earned in relation to the 2011 financial year onwards. This will bring maximum bonus for executive directors and executive committee members in line with the maximum bonus that can be achieved by the next level of management, who can also achieve a maximum bonus of 150% .

Base salary increase for 2010

For 2010 the average increase in base salaries for the executive directors was 3.3% and the average increase for the workforce as a whole was 3.58%.

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 on Corporate Governance 2008. 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 best 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 their worth in the external market and, to this end, obtains information from independently published remuneration surveys, benchmarks the total remuneration package and applies the following principles:

- base salaries are set by reference to the market median, as part of a total remuneration package which has the potential to be upper quartile;
- a significant amount (i.e. more than 50%) of total potential remuneration is performance-related;
- a significant element of performance-related remuneration is provided in the form of shares;
- elements of performance-related variable remuneration are subject to deferral; and
- the performance of divisional general managers is measured both at division and Group level.

Advisers

In addition to the appointment of Towers Watson, other advisers who provided services during 2010 were:

- KPMG who provided general advice on remuneration and benefits, including tax advice for employees who are seconded overseas and they also worked on royalty audits;
- Linklaters who provided legal services in relation to equity plans and corporate matters;
- Monks who provided salary survey data;
- Deloitte who provided salary survey data, royalty audit services and tax training; and
- Kepler Associates who provided independent verification of TSR calculations for the Long Term Incentive Plan.

Advisers are generally appointed by Bill Parsons, the EVP, Human Resources and are subject to review by the committee. The EVP, Human Resources also provided advice to the committee and to the Group in 2010. 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.

Shareholding guideline

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 Plan (DAB) and Long Term Incentive Plan (LTIP) for executive directors and senior managers and the Employee Equity Plan and Annual Bonus Plan 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. Since 2007, variable remuneration for executive directors and certain senior managers has consisted of two performance-related elements: annual bonus and a conditional award under the Long Term Incentive Plan.

Deferred Annual Bonus Plan (DAB)

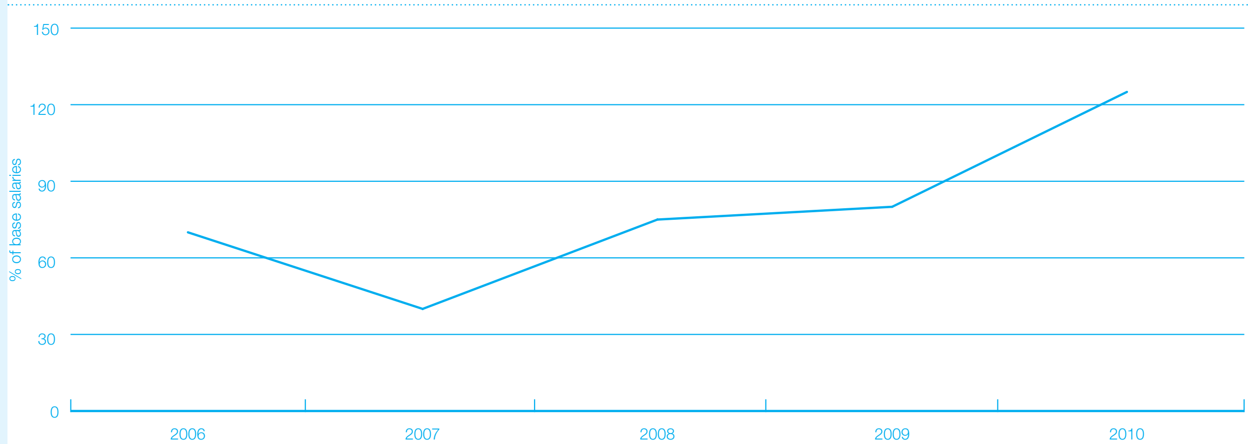
There is a strong variable element to executive directors' remuneration and for 2010 a bonus of up to a maximum of 125% of base salary (after application of a personal performance multiplier which flexes the payment by 0.75 to 1.25) could be earned through the DAB if all targets were met.

The strong performance of the Group in 2010 resulted in both of the two bonus targets being achieved, each of which was capable of triggering 50% of total bonus. For 2010 the US dollar revenue target was $548.7 million against which revenue of $631.3 million was achieved. The normalised operating profit (NOP) target range was from zero payout at £89.5 million up to 25% at £112.4 million and 50% at £120.0 million, all at the budget exchange rate of £1:US$1.65. Actual currency adjusted NOP was £150.1 million. These targets were set by the remuneration committee in December 2009/January 2010 against the background of the extremely difficult trading conditions that prevailed in 2009 and the considerable uncertainty that existed in relation to global economic conditions and trading prospects for the semiconductor industry as a whole. It is to the credit of the executive team and all employees that these targets were exceeded in such a potentially difficult year. The bonuses payable to each executive director in respect of performance during 2010 are shown later in this report and are all at 125% of base salary, half of which was compulsorily deferred into shares for three years. Shares representing the deferred element of bonus earned in 2007 and awarded in 2008 vested in February 2011, with the maximum 2:1 ratio of matching shares being triggered.

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. At the end of the three year deferral period the shares and any matching shares earned are satisfied first from treasury shares and then by newly issued shares.

The targets set by the committee for the DAB each year are intended to be stretching but motivational and average bonus paid to the executive directors over the past five years is 77.8% of salary (with a range from 38.6% payout in 2007 to 125% in 2010) as shown below:

Average % bonus paid over the past five years to executive directors



Following the remuneration review conducted by Towers Watson and taking account of the relatively modest increases in base salary, the committee has taken the decision that the maximum potential bonus for 2011 onwards will increase to 150% of base salary (after application of the personal performance multiplier). This is regarded as fair taking account of the total remuneration packages available to the executive directors and the arrangements in place in peer group companies. For 2011, the committee has decided to adopt the same bonus target arrangement so that 50% of bonus will be dependent on achieving a US dollar revenue target and 50% on achieving a currency adjusted NOP 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 (LTIP)

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 committee approved the replacement of the FTSE Global Technology Index (which ceased to exist at the end of February 2011) with the All World Technology Index for assessing TSR for LTIP awards made in 2009 and subsequently. Towers Watson has confirmed that there is 99% correlation between the performance of the two indices.

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 Group.

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 which led to partial vesting after three years based on real EPS growth and the remainder vests after seven years. 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. In response to impending changes in legislation, the committee has agreed that, to the extent that contributions cannot be made in a tax efficient way at the 10% of basic salary level, the difference will be paid as an additional cash allowance (and subject to appropriate tax and other deductions).

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.

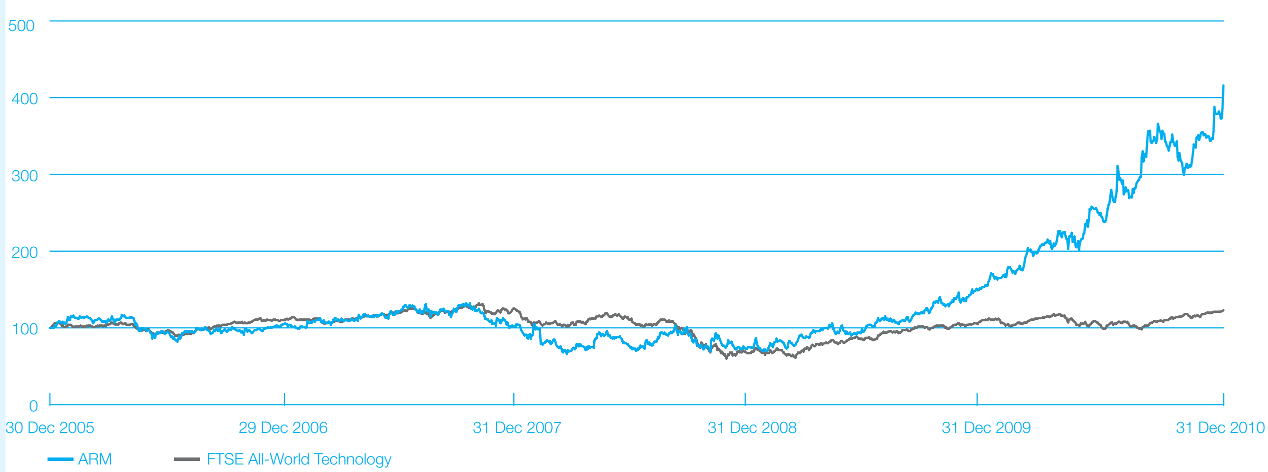
Non-executive directors

During 2010, the Chairmen of the audit and remuneration committees each received a total fee of £47,500 per annum and the other non-executive directors each received a total fee of £42,000 per annum. 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 which can be rolled forward for a further period of three years and is then subject to annual review. 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.

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 2005 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 273% over this period compared with 21% for the FTSE All-World Technology Index for the same period.

ARM total shareholder return performance from 31 December 2005 to 31 December 2010

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 2010 or date of retirement if earlier Number	31 December 2009 Number
Warren East	1,294,914	1,004,279	754,641
Tim Score	387,363	283,303	330,378
Tudor Brown	932,398	925,905	1,817,422
Mike Inglis	250,000	207,776	267,258
Mike Muller	1,456,298	1,462,955	2,014,098
Simon Segars	265,345	265,345	263,413
Doug Dunn	48,000	48,000	48,000
Lucio Lanza (retired 14 May 2010)	N/A	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 (retired 31 January 2011)	N/A	125,000	125,000
Young Sohn	84,000	84,000	159,000
Andy Green (appointed 25 February 2011)	–	N/A	N/A
Larry Hirst (appointed 25 January 2011)	–	N/A	N/A
Janice Roberts (appointed 25 January 2011)	–	N/A	N/A

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 2010 to the date of approval of the remuneration report are shown above.

Audited 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 2010 Number	Granted Number	Exercised Number	Lapsed Number	As at 31 December 2010 Number	Exercise price £	Earliest date of exercise	Expiry date
Warren East	3,187	–	–	(3,187)	–	6.155	22/05/03	21/05/10*
	400,000	–	(400,000)	–	–	1.25	30/01/07	30/01/11**
	592,417	–	(529,858)	–	62,559	1.055	04/02/08	04/02/12**
	573,585	–	(218,536)	–	355,049	1.325	01/02/09	01/02/13**
	1,569,189	**–**	**(1,148,394)**	**(3,187)**	**417,608**			
Tim Score	320,000	–	(320,000)	–	–	1.25	30/01/07	30/01/11**
	473,934	–	(423,887)	–	50,047	1.055	04/02/08	04/02/12**
	483,019	–	(368,060)	–	114,959	1.325	01/02/09	01/02/13**
	1,276,953	**–**	**(1,111,947)**	**–**	**165,006**			
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*
	320,000	–	(320,000)	–	–	1.25	30/01/07	30/01/11**
	436,019	–	(389,975)	–	46,044	1.055	04/02/08	04/02/12**
	392,453	–	(299,049)	–	93,404	1.325	01/02/09	01/02/13**
	1,154,299	**–**	**(1,009,024)**	**(3,736)**	**141,539**			
Mike Inglis	288,000	–	(288,000)	–	–	1.25	30/01/07	30/01/11**
	379,147	–	(339,109)	–	40,038	1.055	04/02/08	04/02/12**
	339,623	–	(258,793)	–	80,830	1.325	01/02/09	01/02/13**
	1,006,770	**–**	**(885,902)**	**–**	**120,868**			
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*
	288,000	–	(288,000)	–	–	1.25	30/01/07	30/01/11**
	398,104	–	(356,064)	–	42,040	1.055	04/02/08	04/02/12**
	339,623	–	(258,793)	–	80,830	1.325	01/02/09	01/02/13**
	1,031,554	**–**	**(902,857)**	**(3,736)**	**124,961**			
Simon Segars	6,792	–	–	–	6,792	3.35	14/05/04	13/05/11*
	224,000	–	(224,000)	–	–	1.25	30/01/05	29/01/11†
	341,232	–	(305,198)	–	36,034	1.055	04/02/08	04/02/12**
	316,981	–	(241,540)	–	75,441	1.325	01/02/09	01/02/13**
	889,005	**–**	**(770,738)**	**–**	**118,267**			

* 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 in 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 2010 Number	Granted Number	Exercised Number	As at 31 December 2010 Number	Exercise price £	Earliest date of exercise	Expiry date
Warren East	8,559	–	(8,559)	–	1.104	01/08/10	31/01/11
Tudor Brown	8,559	–	(8,559)	–	1.104	01/08/10	31/01/11
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

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 £
Warren East	400,000	1.25	1.9848	293,900
Warren East	296,000	1.055	1.9828	274,638
Warren East	8,559	1.104	3.119	17,246
Warren East	233,858	1.055	3.7873	638,970
Warren East	218,536	1.325	3.7513	530,234
	1,156,953			**1,754,988**
Tim Score	320,000	1.25	1.9884	236,276
Tim Score	423,887	1.055	1.9807	392,410
Tim Score	368,060	1.325	3.7838	904,998
	1,111,947			**1,533,684**
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
Tudor Brown	8,559	1.104	4.021	24,967
	1,017,583			**853,244**
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
	885,902			**715,860**
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
	902,857			**742,090**
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
	770,738			**578,394**
Total	**5,845,980**			**6,178,260**

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 £
Tudor Brown	2,091	3.35	5.775	5,071
Warren East	218,536	1.325	6.2149	1,068,619
Simon Segars	6,792	3.35	5.85	16,980

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 2010 Number	Conditional award Number	Vested* Number	Lapsed Number	As at 31 December 2010 Number	Vesting date
Warren East	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
	2012	8 February 2010	2.05	–	209,756	–	–	209,756	February 2013
				1,170,871	**209,756**	**(308,594)**	**–**	**1,072,033**	
Tim Score	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
	2012	8 February 2010	2.05	–	180,487	–	–	180,487	February 2013
				1,009,718	**180,487**	**(261,719)**	**–**	**928,486**	
Tudor Brown	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
	2012	8 February 2010	2.05	–	106,341	–	–	106,341	February 2013
				735,582	**106,341**	**(214,844)**	**–**	**627,079**	
Mike Inglis	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
	2012	8 February 2010	2.05	–	126,829	–	–	126,829	February 2013
				706,944	**126,829**	**(187,500)**	**–**	**646,273**	
Mike Muller	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
	2012	8 February 2010	2.05	–	124,390	–	–	124,390	February 2013
				692,649	**124,390**	**(183,594)**	**–**	**633,445**	
Simon Segars	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
	2012	8 February 2010	2.05	–	125,853	–	–	125,853	February 2013
				699,132	**125,853**	**(179,688)**	**–**	**645,297**	

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

** The performance conditions applicable to the 2008 conditional awards were satisfied to the extent of 200% plus dividend shares.

As detailed in the 2009 annual report 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 performance conditions applicable to the conditional awards granted on 8 February 2008 were satisfied to the extent of 200% plus dividend shares which vested on 8 February 2011, as follows:

Director	Conditional award Number	Vested award Number	Dividend shares Number	Total award Number	Market value at vesting £
Warren East	446,237	892,474	42,465	934,939	5,562,887
Tim Score	387,097	774,194	36,837	811,031	4,825,634
Tudor Brown	306,452	612,904	29,163	642,067	3,820,299
Mike Inglis	268,817	537,634	25,581	563,215	3,351,129
Mike Muller	263,441	526,882	25,070	551,952	3,284,114
Simon Segars	268,817	537,634	25,581	563,215	3,351,129
Total	**1,940,861**	**3,881,722**	**184,697**	**4,066,419**	**24,195,192**

The following conditional awards over ordinary shares were made under the LTIP on 8 February 2011: Warren East 77,741; Tim Score 62,684; Tudor Brown 36,007; Mike Inglis 44,190; Mike Muller 43,372 and Simon Segars 43,863. The mid-market closing price of an ordinary share on 7 February 2011, being the business day prior to the date of these conditional awards, was 611 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 2010, though only half has been settled in cash and the deferred elements will be settled in shares after three years.

The total number of awards under the deferred annual bonus plan held by the directors following the 2011 grant is:

Director	Shares deferred as part of the 2008 bonus Number	Shares deferred as part of the 2009 bonus Number	Shares deferred as part of the 2010 bonus Number	Total awards Number
Warren East	143,388	85,024	43,985	272,397
Tim Score	127,443	74,370	37,847	239,660
Tudor Brown	86,161	43,427	22,299	151,887
Mike Inglis	88,502	51,219	26,595	166,316
Mike Muller	84,650	50,195	26,084	160,929
Simon Segars	88,502	51,006	26,391	165,899
Total	**618,646**	**355,241**	**183,201**	**1,157,088**

The performance conditions applicable to the matching awards relating to the deferred elements of the annual bonus for 2007 were satisfied to the extent of 200% matching shares plus dividend shares which vested on 8 February 2011, as follows:

Director	Shares deferred as part of the 2007 bonus Number	Matching shares Number	Dividend shares Number	Total award Number
Warren East	82,043	164,086	3,902	250,031
Tim Score	69,581	139,162	3,309	212,052
Tudor Brown	54,739	109,478	2,603	166,820
Mike Inglis	48,810	97,620	2,321	148,751
Mike Muller	48,810	97,620	2,321	148,751
Simon Segars	47,772	95,544	2,272	145,588
Total	**351,755**	**703,510**	**16,728**	**1,071,993**

The market value of an ARM share on the date of vesting was 595 pence.

Except as described above, there have been no changes in directors' interests under the Group's equity schemes since the end of the 2010 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 2010 was 423.30 pence. The closing mid-price ranged from 183.6 pence to 440.3 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 2010 £	Subtotal 2009 £	Pension contrib-utions 2009 £	Total 2009 £
Executive										
Warren East	–	430,000	14,891	537,500	982,391	49,089	1,031,480	778,491	46,480	824,971
Tim Score	–	370,000	24,167	462,500	856,667	39,183	895,850	688,307	37,800	726,107
Tudor Brown	–	218,000	11,391	272,500	501,891	40,022	541,913	403,195	32,735	435,930
Mike Inglis	–	260,000	14,575	325,000	599,575	29,068	628,643	474,574	27,500	502,074
Mike Muller	–	255,000	14,891	318,750	588,641	40,651	629,292	466,691	31,172	497,863
Simon Segars	–	258,000	117,631	322,500	698,131	28,380	726,511	620,348	27,500	647,848
Total	–	1,791,000	197,546	2,238,750	4,227,296	226,393	4,453,689	3,431,606	203,187	3,634,793
Non-executive										
Doug Dunn	168,000	–	–	–	168,000	–	168,000	160,000	–	160,000
Lucio Lanza (retired 14 May 2010)	15,581	–	–	–	15,581	–	15,581	40,000	–	40,000
Kathleen O'Donovan	42,000	–	–	–	42,000	–	42,000	40,000	–	40,000
Philip Rowley	47,500	–	–	–	47,500	–	47,500	45,000	–	45,000
John Scarisbrick	42,000	–	–	–	42,000	–	42,000	40,000	–	40,000
Jeremy Scudamore	47,500	–	–	–	47,500	–	47,500	45,000	–	45,000
Young Sohn	42,000	–	–	–	42,000	–	42,000	40,000	–	40,000
Total	404,581	–	–	–	404,581	–	404,581	410,000	–	410,000
Total	**404,581**	**1,791,000**	**197,546**	**2,238,750**	**4,631,877**	**226,393**	**4,858,270**	**3,841,606**	**203,187**	**4,044,793**

* 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 2010. 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 2011 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 unaudited.

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

Warren East is a non-executive director of De La Rue plc and he received remuneration totalling £47,000 up to 31 December 2010 (2009: £45,250). He was also a director of Reciva Limited until 30 June 2010. The options over Reciva shares that were previously awarded lapsed on his resignation and he received no other remuneration. The Group holds less than 1% of the issued share capital of Reciva Limited. Tudor Brown is a non-executive director of ANT plc. In this capacity he received remuneration totalling £22,500 up to 31 December 2010 (2009: £25,625). Mike Inglis is a non-executive director of Pace plc and in this capacity he received remuneration totalling £42,000 up to 31 December 2010 (2009: £33,000). Tim Score is a non-executive director of National Express Group plc and in this capacity he received remuneration totalling £56,000 up to 31 December 2010 (2009: £72,000 including an additional fee for acting as interim chairman for Q1 2009). Simon Segars was a non-executive director of Plastic Logic Limited until 31 December 2010 and in this capacity he received remuneration totalling £15,000 (2009: £15,000). He holds options over 49,400 Plastic Logic shares at a option price of US$0.065 which are exercisable until 2 March 2011.

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.

Philip Rowley
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 2010 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 and express an opinion on 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 2010 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;
- 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; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of ARM Holdings plc for the year ended 31 December 2010 and on the information in the 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

28 February 2011

Contents

Consolidated income statement

For the year ended 31 December

	Note	2010 £000	2009 £000
Revenues	2	406,595	305,022
Cost of revenues		(26,071)	(25,471)
Gross profit		380,524	279,551
Operating expenses			
Research and development		(139,750)	(112,215)
Sales and marketing		(70,108)	(61,723)
General and administrative		(63,707)	(59,999)
Total operating expenses, net		(273,565)	(233,937)
Profit from operations		106,959	45,614
Investment income		3,634	1,788
Interest payable and similar charges		(566)	(143)
Profit before tax	2, 5	110,027	47,259
Tax	6	(24,053)	(6,820)
Profit for the year	2	**85,974**	**40,439**
Earnings per share			
Basic and diluted earnings		**85,974**	**40,439**
Number of shares ('000)			
Basic weighted average number of shares		1,313,186	1,266,624
Effect of dilutive securities: Employee incentive schemes		39,007	34,026
Diluted weighted average number of shares		**1,352,193**	**1,300,650**
Basic EPS	8	6.5p	3.2p
Diluted EPS	8	6.4p	3.1p

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 120 to 126. 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

	Note	2010 £000	2009 £000
Profit for the year		**85,974**	**40,439**
Other comprehensive income:			
Unrealised holding gain on available-for-sale financial assets (net of tax of £nil)	13	155	130
Currency translation adjustment		16,624	(61,718)
Other comprehensive income/(loss) for the year		**16,779**	**(61,588)**
Total comprehensive income/(loss) for the year		**102,753**	**(21,149)**

Consolidated balance sheet

As at 31 December

	Note	2010 £000	2009 £000
Assets			
Current assets:			
Cash and cash equivalents	9, 18	29,363	34,489
Short-term deposits	18	247,466	105,524
Short-term marketable securities	13, 18	–	1,795
Embedded derivatives	18	2,303	2,480
Fair value of currency exchange contracts	18	–	457
Accounts receivable	10	105,668	65,247
Prepaid expenses and other assets	11	18,431	23,635
Current tax assets		3,646	350
Inventories: Finished goods	12	1,784	1,680
Total current assets		408,661	235,657
Non-current assets:			
Available-for-sale financial assets	13, 18	20,329	9,432
Long-term deposits	18	15,000	–
Loans and receivables	18	1,934	–
Prepaid expenses and other assets	11	1,920	1,611
Property, plant and equipment	14	13,847	13,565
Goodwill	15	532,285	516,798
Other intangible assets	16	12,099	24,696
Deferred tax assets	6	78,587	42,724
Total non-current assets		676,001	608,826
Total assets		**1,084,662**	**844,483**
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	18	4,305	2,280
Fair value of currency exchange contracts	18	201	–
Accrued and other liabilities	17	72,028	46,688
Current tax liabilities		20,216	16,536
Deferred revenue		72,049	39,562
Total current liabilities		168,799	105,066
Non-current liabilities:			
Deferred revenue		20,657	–
Deferred tax liabilities	6	301	720
Total non-current liabilities		20,958	720
Total liabilities		**189,757**	**105,786**
Net assets		**894,905**	**738,697**
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		381,379	241,950
Revaluation reserve		–	(155)
Cumulative translation adjustment		99,802	83,178
Total equity		**894,905**	**738,697**

The accompanying notes are an integral part of the financial statements. The financial statements on pages 74 to 119 were approved by the board of directors on 28 February 2011 and were signed on its behalf by:

D. J. Dunn

Doug Dunn, Chairman

Consolidated cash flow statement

For the year ended 31 December

	Note	2010 £000	2009 £000
Profit before tax		110,027	47,259
Investment income (net)		(3,068)	(1,645)
Profit from operations		**106,959**	**45,614**
Adjustments for:			
Depreciation and amortisation of property, plant and equipment and intangible assets		19,949	24,953
Loss on disposal of property, plant and equipment and intangible assets		252	79
Compensation charge in respect of share-based payments		27,129	19,001
Impairment of available-for-sale investments		–	412
Profit on disposal of available-for-sale investments		(37)	(224)
Provision for doubtful debts		(904)	1,018
Provision for obsolescence of inventories		(199)	211
Movement in fair value of currency exchange contracts		658	(18,914)
Movement in fair value of embedded derivatives		177	9,818
Changes in working capital			
Accounts receivable		(39,942)	9,531
Inventories		95	81
Prepaid expenses and other assets		4,695	358
Accounts payable		2,025	(4,673)
Deferred revenue		53,594	10,281
Accrued and other liabilities		25,340	14,564
Cash generated by operations before tax		199,791	112,110
Income taxes paid		(22,859)	(15,550)
Net cash from operating activities		176,932	96,560
Investing activities			
Interest received		2,101	1,277
Interest paid		(566)	–
Purchases of property, plant and equipment	14	(6,182)	(6,030)
Purchases of other intangible assets		(1,173)	(3,888)
Purchases of available-for-sale investments		(10,997)	(9,116)
Proceeds on disposal of property, plant and equipment		146	49
Proceeds on disposal of available-for-sale investments		142	663
Purchase of short- and long-term deposits		(153,264)	(104,902)
Outflow from provision of long-term loan		(1,934)	–
Purchase of subsidiaries, net of cash acquired*		–	(563)
Net cash used in investing activities		(171,727)	(122,510)
Financing activities			
Proceeds received on issuance of shares from treasury		24,015	19,085
Dividends paid to shareholders	7	(34,323)	(28,961)
Net cash used in financing activities		(10,308)	(9,876)
Net decrease in cash and cash equivalents		(5,103)	(35,826)
Cash and cash equivalents at beginning of the year		34,489	76,502
Effect of foreign exchange rate changes		(23)	(6,187)
Cash and cash equivalents at end of the year	9	**29,363**	**34,489**

* The aggregate cash outflow for purchase of subsidiaries in 2010 was £nil (2009: £563,000) and net cash acquired was £nil (2009: £nil).

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 December

	Share capital £000	Share premium account £000	Share option reserve £000	Retained earnings* £000	Revaluation reserve** £000	Cumulative translation adjustment £000	Total £000
	Attributable to equity holders of the Company						
Balance at 1 January 2009	**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 financial assets	–	–	–	–	130	–	130
Currency translation adjustment	–	–	–	–	–	(61,718)	(61,718)
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**40,439**	**130**	**(61,718)**	**(21,149)**
Dividends (see note 7)	–	–	–	(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**
Profit for the year	–	–	–	85,974	–	–	85,974
Other comprehensive income:							
Unrealised holding gain on available-for-sale financial assets	–	–	–	–	155	–	155
Currency translation adjustment	–	–	–	–	–	16,624	16,624
Total comprehensive income for the year	**–**	**–**	**–**	**85,974**	**155**	**16,624**	**102,753**
Dividends (note 7)	–	–	–	(34,323)	–	–	(34,323)
Credit in respect of employee share schemes	–	–	–	27,129	–	–	27,129
Movement on tax arising on share options	–	–	–	36,634	–	–	36,634
Proceeds from sale of own shares	–	–	–	24,015	–	–	24,015
	–	–	–	53,455	–	–	53,455
Balance at 31 December 2010	**672**	**351,578**	**61,474**	**381,379**	**–**	**99,802**	**894,905**

* Own shares held Offset within retained earnings is an amount of £22,059,000 (2009: £65,102,000) representing the cost of own shares held being 21,624,158 (2009: 60,321,361) 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.

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

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") designs microprocessors, physical IP and related technology and software, and sells 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, UK.

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 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 2010
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 and was endorsed by the EU on 3 June 2009. This could impact the Group's financial statements in the future if it makes further acquisitions.

Amendment to IAS 39, "Financial Instruments: Recognition and measurement of 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 was endorsed by the EU on 15 September 2009 and has not impacted the Group since it does not currently designate any financial instruments as hedges.

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 2009, it is effective for periods beginning on or after 1 January 2010 and was endorsed by the EU on 23 March 2010. This has had no material impact on the Group.

Annual improvements 2009 This is a series of amendments to 12 standards as part of the IASB programme on annual improvement. Published by the IASB in April 2009, these are effective for accounting periods beginning on or after 1 January 2010. These were endorsed by the EU on 23 March 2010. These improvements have had no material impact on the results of the Group. Included within these improvements were:

> ***IAS 36 (amendment), "Impairment of assets"*** This amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment. This has no impact on the Group since it does not aggregate segments for this purpose.
>
> ***IAS 1 (amendment), "Presentation of financial statements"*** The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This has no impact on the Group as it does not settle liabilities in this manner.
>
> ***IAS 38 (amendment), "Intangible assets"*** The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. This standard could have an impact on the Group in the event that it makes an acquisition and chooses to adopt this policy.
>
> ***IFRS 5 (amendment) "Non-current assets held for sale and discontinued operations"*** This amendment clarifies that IFRS5 specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations. This could have an impact on the Group if it holds such assets in the future.

1b Summary of significant accounting policies continued

(b) Standards, amendments and interpretations effective in 2010 but not relevant to the Group

IFRIC 15, "Agreements for construction of real estate" 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 1 January 2010 for periods beginning on or after 1 December 2010.

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 from the fair value through the income statement 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. It was endorsed by the EU on 30 November 2009.

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 accounting periods beginning on or after 1 July 2009 and was endorsed by the EU on 3 June 2009. 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 accounting periods beginning on or after 1 January 2011. This amendment was endorsed by the EU on 19 July 2010.

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 measured 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 measured at fair value through the income statement. Published by the IASB in November 2009, this is effective for accounting periods beginning on or after 1 January 2013. This standard is not yet endorsed by the EU.

Amendment to IFRIC 14, "Prepayments of a minimum funding requirement" This 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 was endorsed by the EU on 19 July 2010.

IFRIC 19, "Extinguishing financial liabilities with equity instruments" This 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 accounting periods beginning on or after 1 July 2010. This was endorsed by the EU on 23 July 2010.

Annual improvements 2010 This set of amendments includes changes to six standards and one IFRIC. These are minor amendments and are not expected to have a significant impact on the Group. Published by the IASB in May 2010, these are generally applicable for accounting periods beginning after 1 January 2011.

1b Summary of significant accounting policies continued

Amendment to IAS 32, "Rights Issues" This addresses the accounting for rights issues which are denominated in a currency other than the functional currency of the issuer. Published by the IASB October 2009, this is effective for accounting periods beginning on or after 1 February 2010. This was endorsed by the EU on 23 December 2009.

Amendment to IAS 12, "Income taxes on deferred tax" This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. This is not relevant to the Group as it does not currently own any investment properties. Published by the IASB in December 2010, it is effective for accounting periods on or after 1 January 2012. This is not yet endorsed by the EU.

It is too early to tell whether the adoption of these standards, annual improvements and interpretations will have an impact in future periods on the financial statements when they come into effect for accounting periods after 1 January 2011.

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.

Segment reporting

At 31 December 2010, the Group was organised on a world-wide basis into three business segments, namely the Processor Division (PD), the Physical IP Division (PIPD) and the System 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, investment income, interest payable and similar charges 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 2010 and 2009, these comprised cash and cash equivalents, short- and long-term deposits, short-term marketable securities, available-for-sale financial assets, loans and receivables, embedded derivatives, 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. Exchange differences have been included in general and administrative expenses.

(c) Group companies The results and financial position of all 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 associated with the sale of goods is recognised when all of the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Revenue associated with the rendering of services is recognised when all of the following conditions have been satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow into the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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 all of the conditions relevant to revenue associated with the sale of goods have been satisfied:

- The significant risks and rewards of ownership are transferred when a license arrangement has been agreed and the goods have been delivered to the customer;
- Continuing managerial involvement and effective control over goods sold is relinquished at the point at which goods are delivered to the customer;
- Revenue is recognised to the extent that it is reliably measurable; any consideration due under the licensing arrangement that is not deemed to be reliably measurable is deferred until it can be measured reliably; and
- Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group; any economic benefits of the transaction that are deemed unlikely to flow to the Group are deferred until it becomes probable that they will flow to the Group.

The majority of the Group's revenues come from the licensing of intellectual property and there are therefore very few direct costs associated with the sale of goods; where there are direct costs of sale, these are measured with reference to the purchasing agreements in place with the Group's suppliers.

1b Summary of significant accounting policies continued
Revenue recognition continued
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 expected 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 supports 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 (where such component is not considered incidental to the overall arrangement), 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 or more 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.

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.

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, and fair value of the post-delivery support service cannot be determined by other methods, 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.

1b Summary of significant accounting policies continued

Revenue recognition continued

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 the products by the customer.

Certain products have been co-developed by the Group and a collaborative partner, where both parties had the right to sell licences to the product. In those cases where the Group receives royalty revenues from the sale of these products, the total value of the royalty is recorded as revenue and the amount payable to the collaborative partner is recorded as cost of sales. Where the collaborative partner collects royalties on the 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.

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.

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, net of any lease incentives, 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, and interest payable and similar charges

Investment income, and interest payable and similar charges relate to interest income and expense, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

1b Summary of significant accounting policies continued

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, 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 2010 excludes incremental shares of approximately 185,000 (2009: 11,986,000) 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 to seven years or term of lease, whichever is shorter
Computer equipment	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.

1b Summary of significant accounting policies continued

Intangible assets continued

(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 best estimate of the time that the Group is expected to benefit from them.

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 2010 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 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.

1b Summary of significant accounting policies continued

(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.

Loan and receivables are measured initially at fair value and then annually are measured at amortised cost.

(c) Available-for-sale financial assets 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 that the markets for these assets are not active, the Group establishes fair value by using valuation techniques. At 31 December 2010 and 2009, the estimated fair value of these investments approximated to cost less any permanent diminution in value, based on estimates determined by the directors.

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 the income statement – 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.

1b Summary of significant accounting policies continued

Short- and long-term deposits 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 deposits or short-term marketable securities. Deposits 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.

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 and awards. 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 compensation expense at the statutory rate, the excess is recorded directly in equity, against retained earnings.

1b Summary of significant accounting policies continued

Income taxes continued

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:

	2010 £000	2009 £000
Loss in income statement	(177)	(9,818)

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 and vesting of share awards. 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 and awards at the balance sheet date, pro-rated over the vesting period of the options.

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, securities 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, 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 currently has no requirement for external borrowings.

At 31 December 2010, the Group had outstanding currency exchange contracts to sell $65 million (2009: $45 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 2010, the Group had outstanding currency options under which the Group may, under certain circumstances, be required to sell up to $208 million (2009: $106 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 $153 million (2009: $87 million) of accounts receivable denominated in US dollars at that date, and US dollar cash, cash equivalents, short-term deposits and marketable securities balances of $16 million (2009: $26 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 deposits 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 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 2010, if sterling had strengthened by 10% against foreign currencies with all other variables held constant, post-tax profit for the year would have been £4.9 million lower (2009: £2.7 million), mainly as a result of the mix of financial instruments at respective year-ends.

1c Financial risk management continued

Interest rate risk

At 31 December 2010, the Group had £305.1 million (2009: £148.8 million) of interest-bearing assets. At 31 December 2010, 89% (2009: 75%) of interest-bearing assets (comprising cash and cash equivalents, short- and long-term deposits and marketable securities, loans and receivables 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 £1.9 million (2009: £0.9 million) and profit after tax by £1.4 million (2009: £0.6 million).

The Group had no borrowings during 2010 or 2009.

The Group had 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 long-term deposits 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 2010 and 2009, the Group had no listed investments.

(ii) Unlisted investments The Group had unlisted investments (including convertible loan notes) with a carrying value as at 31 December 2010 of £20.3 million (2009: £9.4 million). A permanent 10% fall in the underlying value of these companies as at 31 December 2010 would therefore have reduced the Group's post-tax profit by £1.5 million (2009: £0.7 million) and resulted in a £nil (2009: £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 2010 and 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 periodically 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 2010 and 2009, the majority of the Group's cash, cash equivalents, short- and long-term deposits 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 two years.

Over 95% of the Group's cash and cash equivalents, short- and long-term deposits 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 2010 and 2009.

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.

1c Financial risk management continued

Credit risk continued

The Group markets and sells to a relatively small number of customers with individually large value transactions. At 31 December 2010, three (2009: one) customers each accounted for over 10% of accounts receivable. Monies from two of these customers have been received in full since the year-end. The remaining customer (for which outstanding balances are not yet due) is one of the many large, established semiconductor companies that accounted in total for over 90% 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.

Liquidity risk

The Group's policy is to maintain balances of cash, cash equivalents, short- and long-term deposits 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 the 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 2010:		
Accounts payable	4,305	–
Accrued and other liabilities	41,789	–
At 31 December 2009:		
Accounts payable	2,280	–
Accrued and other liabilities	29,577	–

The table on the next page 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.

1c Financial risk management continued

Liquidity risk continued

	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 2010			
Outflow	$65,000	–	–
Inflow	£41,230	–	–
Foreign exchange options – held-for-trading at 31 December 2010			
Outflow (maximum)	$60,000	$63,000	$85,500
Inflow (maximum)	£40,238	£42,034	£56,155
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

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- and long-term deposits 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.

Since 2004, the Group's strategy has been to increase its balance sheet efficiency by reducing its cash balance via returning cash to shareholders through a progressive dividend policy and a share buyback programme. Whilst the Group intends to further increase balance sheet efficiency over time, since 2008, 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, £141.8 million at 31 December 2009 and to £291.8 million at 31 December 2010. In the year, the interim dividend was increased by 20% 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.

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 liability in respect of currency exchange contracts is £201,000 at 31 December 2010 (2009: asset of £457,000). 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:

	2010 £000	2009 £000
(Loss)/gain in income statement	(658)	18,914

1c Financial risk management continued

Valuation hierarchy

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

2010	Level 1* £000	Level 2* £000	Level 3* £000	Total £000
Assets				
Fair value through the income statement:				
Embedded derivatives	–	2,303	–	2,303
	–	2,303	–	2,303
Available-for-sale:				
Other long-term investments	–	–	20,329	20,329
	–	–	20,329	20,329
Total assets	–	2,303	20,329	22,632

* 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.

As at 31 December 2010 there was a liability for currency exchange contracts of £201,000 (2009: £nil), which is considered to be a level 2 valuation.

2009	Level 1* £000	Level 2* £000	Level 3* £000	Total £000
Assets				
Fair value through the income statement:				
Embedded derivatives	–	2,480	–	2,480
Currency exchange contracts	–	457	–	457
	–	2,937	–	2,937
Available-for-sale:				
Short-term marketable securities	1,795	–	–	1,795
Other long-term investments	–	–	9,432	9,432
	1,795	–	9,432	11,227
Total assets	1,795	2,937	9,432	14,164

Level 3 financial assets

	Other long-term investments £000
Balance, at 1 January 2010	9,432
Additions	11,019
Disposals	(122)
Balance, at 31 December 2010	20,329

	Other long-term investments £000
Balance, at 1 January 2009	1,167
Additions	9,116
Disposals	(439)
Impairments	(412)
Balance, at 31 December 2009	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. The Group uses a pre-tax discount rate of approximately 11% (2009: 12%).

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 2010 the Group was 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.

System 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 also 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. Further, the information provided to the CODM is based on normalised profit before tax and therefore this information is provided as well as the equivalent profit stated under IFRS.

The reconciling items: intangible amortisation and other acquisition related charges; share-based payments costs including employers taxes; restructuring and investment related charges are analysed below in addition to an analysis of revenues; operating costs; investment income; interest payable and similar charges; profit/(loss) before tax; tax; profit/(loss) after tax; depreciation; capital expenditure; total assets and liabilities; net assets and goodwill for each segment and the Group in total.

Business segment information

Year ended 31 December 2010	Processor Division £000	Physical IP Division £000	System Design Division £000	Unallocated £000	Group £000
Segmental income statement					
Revenue	315,747	54,855	35,993	–	406,595
Operating costs	(179,224)	(82,519)	(39,493)	1,600	(299,636)
Investment income	–	–	–	3,634	3,634
Interest payable and similar charges	–	–	–	(566)	(566)
Profit/(loss) before tax	136,523	(27,664)	(3,500)	4,668	110,027
Tax	–	–	–	(24,053)	(24,053)
Profit/(loss) for the year	**136,523**	**(27,664)**	**(3,500)**	**(19,385)**	**85,974**
Reconciliation to normalised profit/(loss) before tax:					
Intangible amortisation and other acquisition related charges	2,181	8,413	801	–	11,395
Share-based payment costs including employer's taxes	24,969	9,949	6,992	–	41,910
Restructuring	(358)	–	(15)	–	(373)
Investment related charges	4,448	–	–	–	4,448
Normalised profit/(loss) before tax	167,763	(9,302)	4,278	4,668	167,407
Segmental balance sheet					
Total assets	239,918	414,929	29,820	399,995	1,084,662
Total liabilities	(115,854)	(38,576)	(14,609)	(20,718)	(189,757)
Net assets	**124,064**	**376,353**	**15,211**	**379,277**	**894,905**
Other segmental items					
Depreciation	3,045	2,470	604	–	6,119
Capital expenditure	3,889	2,773	693	–	7,355
Goodwill	139,560	377,767	14,958	–	532,285
Revenues (USD)	$ 490,747	$ 85,143	$ 55,417	–	$ 631,307

2 Segmental reporting continued

Year ended 31 December 2009	Processor Division £000	Physical IP Division £000	System 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 and similar charges	–	–	–	(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**
Reconciliation to normalised profit/(loss) before tax:					
Intangible amortisation and other acquisition related charges	2,598	12,056	1,500	–	16,154
Share-based payment costs including employer's taxes	13,906	6,489	4,304	–	24,699
Restructuring	7,292	348	831	–	8,471
Investment related charges	188	–	–	–	188
Normalised profit/(loss) before tax	102,355	(17,287)	2,557	9,146	96,771
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
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

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- and long-term deposits; available-for-sale investments; marketable securities; loans and receivables; embedded derivatives; fair value of currency exchange contracts; 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 are in the following principal territories:

- Europe
- United States
- Asia Pacific

Analysis of revenue by destination*:

	2010 £000	2009 £000
United States	129,252	84,747
Taiwan	51,839	34,828
South Korea	48,664	41,381
Japan	46,405	48,014
China	30,722	15,835
British Virgin Islands	21,346	14,550
Germany	16,271	8,481
Netherlands	14,794	14,347
Switzerland	13,316	10,369
Rest of Europe	13,930	13,936
Rest of Asia Pacific	9,596	7,832
Rest of North America	10,460	10,702
	406,595	**305,022**

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

The Group's revenue within the home country of the parent company amounted to £3.8 million and £1.7 million for the years ended 31 December 2010 and 2009 respectively. The Group's exports from the UK were £391.0 million and £293.2 million for the years ended 31 December 2010 and 2009 respectively.

Analysis of revenue by origin:

	2010 £000	2009 £000
Europe*	396,399	296,785
United States	9,901	7,838
Asia Pacific	295	399
	406,595	**305,022**

* Includes the UK which had total revenues of £394.8 million in 2010 (2009: £295.0 million).

Analysis of revenue by revenue stream:

	2010 £000	2009 £000
Licensing	132,528	98,446
Royalties	217,624	155,447
Services	20,450	18,188
Development systems	35,993	32,941
	406,595	**305,022**

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

	2010 £000	2009 £000
Europe*	43,134	14,410
United States	7,088	7,975
Asia Pacific	2,808	2,223
	53,030	**24,608**

* Includes the UK which had non-current assets (excluding deferred tax assets, goodwill and other intangible assets) of £42.7 million in 2010 (2009: £14.0 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 2010, key management comprised 22 people (2009: 21).

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

	2010 £000	2009 £000
Salaries and short-term employee benefits	8,395	6,441
Share-based payments	2,976	2,697
Group pension contributions to money purchase schemes	393	341
	11,764	**9,479**

Directors' emoluments

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

	2010 £000	2009 £000
Aggregate emoluments in respect of qualifying services	4,632	3,842
Aggregate Group pension contributions to money purchase schemes	226	203
Aggregate gains on exercise of share options	6,178	976
Aggregate amounts receivable under the Long Term Incentive Plan	5,133	477
	16,169	**5,498**

Detailed disclosures of directors' emoluments are shown on page 70. Details of directors' interests in share options and awards are shown on pages 66 to 69 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:

	2010 Number	2009 Number
By segment		
Processor Division	1,031	893
Physical IP Division	496	512
System Design Division	272	318
	1,799	**1,723**

	2010 Number	2009 Number
By activity		
Research and development	1,208	1,141
Sales and marketing	337	334
General and administrative	254	248
	1,799	**1,723**

	2010 £000	2009 £000
Staff costs (for the above persons)		
Wages and salaries	124,412	106,711
Restructuring costs	373	8,659
Share-based payments (note 22)	27,129	19,001
Social security costs	16,288	12,362
Other pension costs	5,871	5,281
	174,073	**152,014**

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:

	2010 £000	2009 £000
Staff costs, including share-based payments (note 4)	174,073	152,014
Cost of inventories recognised as an expense	3,308	2,659
Depreciation of property, plant and equipment – owned assets (note 14)	6,119	5,618
Amortisation of other intangible assets (note 16):		
– Cost of sales	255	385
– Research and development	3,544	7,656
– Sales and marketing	7,851	8,483
– General and administrative	2,180	2,811
Impairment of available-for-sale investments	–	412
Profit on disposal of available-for-sale investments	(37)	(224)
Loss on disposal of property, plant and equipment and intangible assets	252	79
Other operating lease rentals payable		
– Plant and machinery	21,837	17,524
– Property	6,323	6,610
Accounts receivables impairment (including movement in provision)	(904)	1,018
Foreign exchange gains (including movement on embedded derivatives)	(1,501)	(7,309)

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:

	2010 £000	2009 £000
Fees payable to the Group's auditor for the audit of the Company and consolidated financial statements	243	241
Fees payable to the Group's auditor and its associates for other services:		
– The audit of the Group's subsidiaries pursuant to legislation	230	238
– Services pursuant to section 404 of the Sarbanes-Oxley Act	240	247
– Other services pursuant to legislation	81	86
Statutory audit, financial reporting and other related services	794	812
– Tax services	174	412
– All other services	50	109
	1,018	**1,333**

6 Tax

Analysis of charge in the year:

	2010 £000	2009 £000
Current tax:		
Current tax on profits for the year	31,391	20,456
Adjustments in respect of prior years	298	(2,664)
Total current tax	31,689	17,792
Deferred tax	(7,636)	(10,972)
Income tax expense	**24,053**	**6,820**

Analysis of tax on items charged to equity:

	2010 £000	2009 £000
Deferred tax credit on outstanding share options and awards	(29,033)	(9,593)
Current tax benefit on share options and awards	(7,601)	(785)

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

	2010 £000	2009 £000
Profit before tax	110,027	47,259
Profit before tax multiplied by rate of corporation tax in the UK of 28% (2009: 28%)	30,808	13,233
Effects of:		
Adjustments to tax in respect of prior years	298	(2,664)
Adjustments in respect of foreign tax rates	1,203	295
Research and development tax credits	(7,265)	(5,650)
Permanent differences – foreign exchange	–	4,462
Permanent differences – other*	1,340	402
Permanent differences – recognition of US deferred tax assets	(4,005)	–
Foreign withholding tax	2,013	1,648
Amortisation of other intangible assets	(641)	(1,294)
Timing differences in respect of share-based payments	302	(3,612)
Total taxation	**24,053**	**6,820**

* Includes expenditure disallowable for tax purposes.

Deferred tax

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

The movement on the deferred tax account is shown below:

	2010 £000	2009 £000
At 1 January	42,004	22,840
Income statement credit	7,636	10,972
Adjustment in respect of share-based payments	29,033	9,593
Exchange differences	(387)	(1,408)
Amount acquired with subsidiary undertakings	–	7
At 31 December	**78,286**	**42,004**

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. Previously unrecognised deferred tax assets of £4,005,000 in the US have been recognised due to the increased likelihood that these will be recoverable.

The amount of deferred tax assets unrecognised at 31 December 2010 is £1,425,000 (2009: £7,678,000).

No deferred tax has been recognised in respect of a further £23.0 million (2009: £29.0 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.

In June 2010, the UK government announced its intention to reduce the main rate of UK corporation tax from 28% to 24% by 1 April 2014 by enacting, every year until 2014, a reduction of 1%. At 31 December 2010, the first of these reductions, being a change in UK corporation tax rate from 28% to 27% on 1 April 2011, had been substantively enacted. The government also announced that the main rate of capital allowances will decrease from 20% to 18% from 1 April 2012. These changes have not had a material impact on the deferred tax balances as at 31 December 2010.

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 2010	18,945	374	6,914	9,154	12,075	47,462
Income statement credit/(charge)	614	(361)	(1,046)	7,621	(2,470)	4,358
Movement on deferred tax arising on outstanding share options	25,626	–	–	–	–	25,626
Unutilised current year share option deductions	–	–	–	3,407	–	3,407
Exchange differences	–	–	–	(310)	–	(310)
At 31 December 2010 (prior to offsetting)	**45,185**	**13**	**5,868**	**19,872**	**9,605**	**80,543**
Offsetting of deferred tax liabilities						(1,956)
At 31 December 2010 (after offsetting)						**78,587**
At 1 January 2009	5,150	594	7,306	14,074	9,604	36,728
Income statement credit/(charge)	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**

6 Tax continued

Deferred tax liabilities

	Amounts relating to intangible assets arising on acquisition £000	Other £000	Total £000
At 1 January 2010	4,763	695	5,458
Movement in respect of amortisation of intangible assets	(3,361)	–	(3,361)
Other short-term differences	–	83	83
Exchange differences	77	–	77
At 31 December 2010 (prior to offsetting)	**1,479**	**778**	**2,257**
Offsetting of deferred tax assets			(1,956)
At 31 December 2010 (after offsetting)			**301**
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**

The deferred tax liability due after more than one year prior to offsetting is £1,308,000 (2009: £1,198,000).

7 Dividends

	2010 £000	2009 £000
Final 2008 paid at 1.32 pence per share	–	16,634
Interim 2009 paid at 0.97 pence per share	–	12,327
Final 2009 paid at 1.45 pence per share	19,022	–
Interim 2010 paid at 1.16 pence per share	15,301	–
	34,323	**28,961**

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2010 of 1.74 pence per share which will absorb an estimated £23.4 million of shareholders' funds. It will be paid on 18 May 2011 to shareholders who are on the register of members on 3 May 2011.

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 as 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 2010 and 2009 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

	2010 £000	2009 £000
Cash at bank and in hand	29,363	32,489
Bank deposits with original maturity of less than three months	–	2,000
	29,363	**34,489**

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.

The effective interest rate on bank deposits (with original maturity of less than three months) outstanding as at 31 December 2009 was 1.5% and these deposits had an average maturity of 27 days.

10 Accounts receivable

	2010 £000	2009 £000
Trade debtors (including receivables from related parties – see note 26)	99,068	55,289
Less: Provision for impairment of trade debtors	(2,091)	(2,395)
Trade debtors, net	96,977	52,894
Amounts recoverable on contracts	8,691	12,353
Current accounts receivable	**105,668**	**65,247**

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

	2010 £000	2009 £000
At 1 January	(2,395)	(1,744)
Credit /(charge) to income statement	904	(1,018)
(Utilised)/reclassification	(543)	263
Foreign exchange	(57)	104
At 31 December	**(2,091)**	**(2,395)**

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

11 Prepaid expenses and other assets

	2010 £000	2009 £000
Other receivables	5,968	9,414
Prepayments and accrued income	12,463	14,221
Current prepaid expenses and other assets	18,431	23,635
Plus: non-current prepayments and accrued income	1,920	1,611
Total prepaid expenses and other assets	**20,351**	**25,246**

12 Inventories

	2010 £000	2009 £000
Finished goods	2,043	2,138
Less: Provision for obsolescence of inventories	(259)	(458)
	1,784	**1,680**

13 Available-for-sale financial assets

Current:

	Short-term marketable securities £000
At 1 January 2010	1,795
Net cash redeemed in the year	(1,950)
Revaluation through equity	155
At 31 December 2010	**–**

	Short-term marketable securities £000
At 1 January 2009	1,816
Revaluation through equity	130
Exchange differences	(151)
At 31 December 2009	**1,795**

Non-current:

	Other long-term investments £000
Net book value	
At 1 January 2010	9,432
Additions	11,019
Disposals	(122)
At 31 December 2010	**20,329**

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

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, the fair value was equal to cost. At 31 December 2010, the Group had no such securities.

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 2010: £20,329,000; 2009: £9,432,000). 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:

- further convertible loan notes to Cognovo Limited (a UK company specialising in software-defined modem techniques and solutions);
- a 13% investment and a further 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 convertible loan note to Nethra Imaging Inc. (a US chip company specialising in imaging solutions);
- a 27% investment (comprising 13% voting and 14% non-voting shares) in Calxeda Inc. (a US company, formerly called Smooth-stone Inc., specialising in low-power server technology); and
- a 12% investment in Ambiq Micro Inc. (a US company specialising ultra low-power microcontrollers).

During the year, the Group disposed of its investment in CoWare Inc. (a company which develops system-on-chip software for a wide range of applications).

Other investments include a 5% holding in Arteris Holdings Inc. (a US network-on-chip company), a 5% holding in Carbon Design Systems Inc. (a US system-on-chip design solutions company), a 10% holding in Cyclos Semiconductor Inc. (a US company specialising in on-chip energy harvesting), a 5% holding in eSol Co. Ltd (an embedded software company in Japan) and a 5% holding in Triad Semiconductor Inc. (a US chip company specialising in mixed signal ASICs).

Available-for-sale financial assets include the following:

	2010 £000	2009 £000
Unlisted short-term marketable securities – US	–	1,795
Total current financial assets	**–**	**1,795**
Unlisted equity securities – UK	579	25
Unlisted equity securities – China	174	123
Unlisted equity securities – Japan	890	890
Unlisted equity securities – US	5,613	1,416
Convertible loan notes – UK	10,624	6,615
Convertible loan notes – US	2,449	363
Total non-current financial assets	**20,329**	9,432
Total financial assets	**20,329**	**11,227**

Available-for-sale financial assets are denominated in the following currencies:

	2010 £000	2009 £000
Sterling	17,880	9,069
US dollars	2,449	2,158
Total financial assets	**20,329**	**11,227**

14 Property, plant and equipment

	Freehold buildings £000	Leasehold improvements £000	Computer equipment £000	Fixtures, fittings and motor vehicles £000	Total £000
Cost					
At 1 January 2010	190	20,709	21,686	5,678	48,263
Additions	–	324	5,161	697	6,182
Disposals	–	(3,709)	(1,428)	(1,298)	(6,435)
Exchange differences	–	359	512	244	1,115
At 31 December 2010	190	17,683	25,931	5,321	49,125
Aggregate depreciation					
At 1 January 2010	87	14,178	17,027	3,406	34,698
Charge for the year	7	1,537	3,770	805	6,119
Transfers	–	3	(3)	–	–
Disposals	–	(3,613)	(1,431)	(1,191)	(6,235)
Exchange differences	–	103	367	226	696
At 31 December 2010	94	12,208	19,730	3,246	35,278
Net book value					
At 31 December 2010	**96**	**5,475**	**6,201**	**2,075**	**13,847**

	Freehold buildings £000	Leasehold improvements £000	Computer equipment £000	Fixtures, fittings and motor vehicles £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**

15 Goodwill

	£000
At 1 January 2009	**567,844**
Revision to consideration and intangible assets – Logipard	103
Exchange differences	(51,149)
At 31 December 2009	**516,798**
Exchange differences	15,487
At 31 December 2010	**532,285**

During the fourth quarter of 2010, 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 2010 are summarised below:

	Processor Division £000	Physical IP Division £000	System Design Division £000	Group £000
Goodwill relating to Artisan	125,923	377,767	–	503,690
Goodwill relating to Falanx	9,400	–	–	9,400
Goodwill relating to Axys	–	–	7,777	7,777
Goodwill relating to KEG and KSI	–	–	7,150	7,150
Goodwill relating to Logipard	2,177	–	–	2,177
Goodwill relating to other acquisitions	2,060	–	31	2,091
Goodwill at 31 December 2010	139,560	377,767	14,958	532,285
Goodwill at 31 December 2009	135,723	366,258	14,817	516,798

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 2020 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.

Revenue growth Revenue growth assumptions are based on financial budgets and forecasts approved by senior management, taking into account typical semiconductor industry growth rates and ARM's historical experience in the context of wider industry and economic conditions.

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 at a rate of 10% per annum post 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 2020 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.

Revenue growth Revenue is assumed to grow by approximately 12% per annum on average for the next five years, falling to 4% per annum by 2020, reflecting the uncertainty of estimating 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 licence base, both before and after the acquisition of Artisan.

US dollar licence revenues increased by 15% year-on-year in 2010 and royalty revenues increased by 21%. The increase in revenues was due not only to the improved economic climate during 2010 but also further success in signing licences for leading edge physical IP technology. As a result, backlog increased by 34% in 2010 compared with the beginning of the year. 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. Further evidence of this was seen in 2010 with a number of licences being signed for Processor Optimisation Packages (POPs). These POPs enable an enhanced performance in PD processors.

Operating margins Operating margins are assumed to increase gradually over time to around 30% by the end of the forecast period. In 2010, PIPD made a loss, mostly as a result of the continued level of investment in the development of leading-edge technology in advance of the revenues from both licensing and royalties being received. 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 700 processor licences with more than 250 customers over the last 20 years with less than half of these paying 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 $291 million in 2010.

Discount rate Future cash flows are discounted at a rate of 10% per annum post 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 changes in the assumed revenues. Although an overall compound annual growth rate of 12% for the next five years, dropping to 4% by 2020 is anticipated by the directors in reaching their conclusions, an annual growth rate of 7% would support the carrying value of goodwill within the division.

15 Goodwill continued

System Design Division (SDD)

The System 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 2015 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.

Revenue growth Revenue growth assumptions are based on financial budgets and forecasts approved by senior management, taking into account typical semiconductor industry growth rates and ARM's historical experience in the context of wider industry and economic conditions.

Operating margins Operating margins are assumed to be around 14% on average during the period.

Discount rate Future cash flows are discounted at a rate of 10% per annum post 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

	Computer 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 and tradenames £000	Order backlog £000	Total £000
Cost									
At 1 January 2010	9,587	25,430	6,007	38,465	53,825	14,304	4,491	1,982	154,091
Additions	1,173	–	–	–	–	–	–	–	1,173
Disposals	(1,064)	–	–	–	–	–	–	–	(1,064)
Exchange differences	99	–	181	362	1,224	449	141	62	2,518
At 31 December 2010	9,795	25,430	6,188	38,827	55,049	14,753	4,632	2,044	156,718
Aggregate amortisation									
At 1 January 2010	8,450	16,649	5,521	32,386	45,827	14,304	4,276	1,982	129,395
Charge for the year	789	2,102	515	3,028	7,170	–	226	–	13,830
Disposals	(866)	–	–	–	–	–	–	–	(866)
Exchange differences	76	–	152	454	937	449	130	62	2,260
At 31 December 2010	8,449	18,751	6,188	35,868	53,934	14,753	4,632	2,044	144,619
Net book value									
At 31 December 2010	**1,346**	**6,679**	**–**	**2,959**	**1,115**	**–**	**–**	**–**	**12,099**

16 Other intangible assets continued

	Computer 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 and 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**

17 Accrued and other liabilities

	2010 £000	2009 £000
Accruals:		
Provision for payroll taxes on share awards	17,722	6,156
Employee bonus and sales commissions	22,719	10,724
Other accruals	25,001	23,851
Total accruals	65,442	40,731
Other taxation and social security	2,561	1,996
Other payables	4,025	3,961
	72,028	**46,688**

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 2010				
Cash and cash equivalents	29,363	–	–	29,363
Short-term deposits	247,466	–	–	247,466
Embedded derivatives	–	2,303	–	2,303
Accounts receivable (gross of impairment provision)	107,759	–	–	107,759
Total current financial assets	384,588	2,303	–	386,891
Available-for-sale investments – unlisted	–	–	20,329	20,329
Long-term deposits	15,000	–	–	15,000
Loans and receivables	1,934	–	–	1,934
Total non-current financial assets	16,934	–	20,329	37,263
Total financial assets	**401,522**	**2,303**	**20,329**	**424,154**
At 31 December 2009				
Cash and cash equivalents	34,489	–	–	34,489
Short-term deposits	105,524	–	–	105,524
Short-term marketable securities	–	–	1,795	1,795
Embedded derivatives	–	2,480	–	2,480
Currency exchange contracts	–	457	–	457
Accounts receivable (gross of impairment provision)	67,642	–	–	67,642
Total current financial assets	207,655	2,937	1,795	212,387
Non-current available-for-sale investments – unlisted	–	–	9,432	9,432
Total financial assets	**207,655**	**2,937**	**11,227**	**221,819**

Financial liabilities

	2010 £000	2009 £000
Liabilities at amortised cost at 31 December:		
Accounts payable	4,305	2,280
Accrued and other liabilities	41,789	29,577
	46,094	31,857
Liabilities at fair value through the income statement at 31 December:		
Currency exchange contracts	201	–
Total financial liabilities	**46,295**	**31,857**

Loans and receivables

During 2010 the Group invested £2.5 million in an interest-free charitable bond with Future Business. This has been recognised in loans and receivables at its initial fair value of £1,934,000, measured using the effective interest method, which resulted in a charge of £566,000 being recognised as interest payable and similar charges.

Short-term deposits The effective interest rate on short-term deposits outstanding at the year-end was 1.78% (2009: 1.92%) and these deposits have an average maturity of 159 days (2009: 126 days).

Long-term deposits The effective interest rate on long-term deposits outstanding at the year-end was 2.53% and these deposits have an average maturity of 543 days.

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.

	2010 £000	2009 £000
Trade debtors (gross of impairment provision):		
Not yet due	66,012	30,255
Under 90 days overdue	27,260	18,922
Over 90 days overdue but not provided for	3,705	3,717
Fully provided for	2,091	2,395
Total	**99,068**	**55,289**

As shown above, at 31 December 2010 trade debtors less than 90 days overdue amounted to £27.3 million. Of those outstanding at 31 December 2010, £12.4 million had been collected by 25 February 2011 and £13.8 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 £1.5 million had been collected by 25 February 2011 and £1.6 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 2010, trade debtors fully provided for amounted to £2.1 million (2009: £2.4 million). Of those provided for at 31 December 2010, £nil relates to trade debtors that are between three and six months overdue (2009: £0.2 million) and £2.1 million relates to trade debtors that are over six months overdue (2009: £2.2 million).

Highly liquid financial assets

As at 31 December 2010, 97% (2009: 91%) of the Group's cash and cash equivalents, short- and long-term deposits 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 Share capital

	2010 £000	2009 £000
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2009: 2,200,000,000)	**1,100**	1,100

	2010		2009	
	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
At 1 January 2010	65,102
Issuance of shares	(43,043)
At 31 December 2010	**22,059**
At 1 January 2009	107,963
Issuance of shares	(42,861)
At 31 December 2009	**65,102**

No shares were repurchased during 2010 and 2009.

At 31 December 2010, a total of 21.6 million shares (2009: 60.3 million) were held as treasury stock. At 31 December 2010, own shares held have a nominal value of 0.05 pence (2009: 0.05 pence) and in total represent 1.6% (2009: 4.5%) of called-up share capital.

21 Acquisitions

There were no acquisitions in 2010 or 2009.

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 is a further scheme for our French employees (the "French Scheme"). In the French Scheme, options are exercisable between four and seven years after their 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 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 since 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 £27.1 million (2009: £19.0 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 2010 and 2009 were as follows:

Grant date	16 Feb 2010	25 Jun 2010	16 Aug 2010	16 Feb 2009	26 Jun 2009	17 Aug 2009
Scheme	ESPP	SAYE	ESPP	ESPP	SAYE	ESPP
Share price at grant date	£1.949	£2.847	£3.08	£0.965	£1.14	£1.24
Exercise price	£1.0387	£1.948	£1.6567	£0.8203	£0.854	£0.816
Number of employees	287	232	291	275	183	304
Shares under option	1,024,154	609,763	651,371	1,368,689	1,175,528	1,170,412
Vesting period (years)	–	3–5	–	–	3–5	–
Expected volatility	–	40%-45%	–	–	40%-44%	–
Expected life (years)	–	3–5	–	–	3–5	–
Risk free rate	–	0.5%	–	–	0.5%	–
Dividend yield	–	0.85%	–	–	1.93%	–
Fair value per option	£0.9353	£1.219-£1.267	£1.4234	£0.1447	£0.416–£0.433	£0.424

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 assumptions for each grant during 2010 and 2009 were as follows:

Grant date	8 Feb 2010	8 Feb 2010	8 Feb 2010	8 Feb 2010	8 May 2010
Scheme	DAB	RSU	French RSU	LTIP	RSU
Share price at grant date	£2.05	£2.05	£2.05	£2.05	£2.305
Number of employees	41	1,508	81	41	76
Shares awarded	1,008,683	10,917,393	552,771	2,477,746	393,850
Vesting period (years)	–	1–4	2–4	3	1–4
Expected volatility	45%	34%-46%	41%-46%	45%	32%-45%
Expected life (years)	3	1–4	2–4	3	1–4
Risk free rate	0.5%	0.5%	0.5%	0.5%	0.5%
Dividend yield	1.18%	1.18%	1.18%	1.18%	1.05%
Fair value per option	£1.979	£1.955–£2.026	£1.955–£2.002	£1.979	£2.21-£2.281
Grant date	8 May 2010	13 Aug 2010	13 Aug 2010	12 Nov 2010	12 Nov 2010
Scheme	French RSU	RSU	French RSU	RSU	French RSU
Share price at grant date	£2.305	£3.088	£3.088	£3.506	£3.506
Number of employees	1	97	3	103	6
Shares awarded	13,500	478,370	20,000	459,475	11,300
Vesting period (years)	2–4	1–4	2–4	1–4	2–4
Expected volatility	41%-45%	35%-46%	42%-46%	37%-46%	39%-46%
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	1.05%	0.94%	0.94%	0.83%	0.83%
Fair value per option	£2.21-£2.257	£2.974–£3.059	£2.974–£3.031	£3.392–£3.477	£3.392–£3.448

22 Share-based payments continued

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				

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 2010 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.

22 Share-based payments continued

	2010			2009		
	Options Number	Weighted average exercise price	RSUs/ LTIP/DAB Number	Options Number	Weighted average exercise price	RSUs/ LTIP/DAB Number
Outstanding at 1 January	34,862,762	£1.013	41,221,041	62,053,652	£1.057	28,871,631
Granted	2,285,288	£1.457	18,801,305	3,714,629	£0.830	22,862,829
Forfeited	(207,688)	£1.346	(1,639,124)	(1,682,666)	£1.180	(1,335,190)
Lapsed	(703,974)	£3.213	–	(6,266,711)	£1.958	(1,295,244)
Exercised	(22,783,528)	£1.054	(15,913,696)	(22,956,142)	£0.831	(7,882,985)
Outstanding at 31 December	**13,452,860**	**£0.899**	**42,469,526**	34,862,762	£1.013	41,221,041
Exercisable at 31 December	**8,377,656**	**£0.819**	–	29,090,453	£1.021	–

The weighted average share price at the date of exercise or vest of the above share options and awards was £2.34 (2009: £1.29). The following options over ordinary shares were in existence at 31 December:

2010

Exercise price (£)	Number outstanding	Weighted average exercise price (£)	Weighted average remaining life Expected	Weighted average remaining life Contractual
Outstanding options:				
0.22 – 0.4375	1,604,754	0.30	0.56	1.11
0.47 – 0.9475	7,417,573	0.71	1.36	2.27
1.005 – 1.055	1,730,025	1.05	0.67	1.32
1.0575 – 1.25	461,049	1.20	0.74	1.37
1.325 – 3.75	2,239,459	1.79	1.45	2.15
Total	**13,452,860**	**0.90**	**1.17**	**1.96**
Outstanding RSU/LTIP/DAB awards:				
0.00 (RSUs)	27,690,117	–	1.25	1.25
0.00 (LTIP)	11,474,982	–	0.96	0.96
0.00 (DAB)	3,304,427	–	1.16	1.16
Total	**42,469,526**	–	**1.17**	**1.17**

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**

23 Capital and other financial commitments

	2010 £000	2009 £000
Capital expenditure commitments	694	778
Other financial commitments (expenditure on investments)	3,044	1,500
Contracts placed for future capital and other financial expenditure not provided in the financial statements	**3,738**	**2,278**

24 Operating lease commitments – minimum lease payments

At 31 December 2010, the Group had commitments under non-cancellable operating leases as follows:

	2010			2009		
	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	6,176	14,042	20,218	5,348	16,357	21,705
Later than one year and less than five years	16,932	2,187	19,119	14,759	14,544	29,303
After five years	7,185	–	7,185	3,263	–	3,263
At 31 December	**30,293**	**16,229**	**46,522**	**23,370**	**30,901**	**54,271**

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 2009, the Group received funding for SOI technology development of £1,033,000 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 2010 or 2009. During 2009 the Group also invoiced £409,000 to Soitec in relation to an IP licence which was fully outstanding at 31 December 2009. This has been settled in full during 2010. Furthermore, the Group was invoiced £390,000 in 2009 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 2010 in relation to this agreement were £nil (2009: £390,000).

As at 31 December 2009 £139,000 was owing to the Group by Netronome Systems Inc., a company of which John Scarisbrick (a non-executive director of the Group) is Chairman. During 2010 this balance was repaid in full and no further amounts invoiced.

During the year, the Group was invoiced £3,190,000 in subscription fees by its associated company, Linaro Limited. As at 31 December 2010, £1,029,000 was outstanding. In addition the Group provided consulting and other services to Linaro of £1,050,000. As at 31 December 2010, £595,000 was owed to the Group. Further information relating to Linaro is disclosed in note 28.

There were no other related party transactions during 2010 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 2010 of 1.74 pence per share. Subject to shareholder approval, the final dividend will be paid on 18 May 2011 to shareholders on the register on 3 May 2011. The final dividend has not been recognised as a distribution during the year ended 31 December 2010.

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. A full list is filed in the Group's Annual Return. All investments are indirectly held unless otherwise shown.

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 Norway AS	Norway	Development of IP	100
ARM Sweden AB	Sweden	Development of IP	100
ARM Germany GmbH	Germany	Marketing and development of RISC-based microprocessor IP, integrated processor modelling solutions and microcontroller tools	100
ARM Embedded Technologies Pvt. Limited	India	Marketing, research and development of RISC-based microprocessors and physical IP	100
ARM Physical IP Asia Pacific Pte. Limited	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. Limited	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.

During 2010, the Group was a founder member in the creation of Linaro Limited (Linaro), a not for profit company created to foster innovation in the Linux community. Linaro is a company limited by guarantee and as such has no shareholders. From incorporation to the end of September 2010, the Group controlled a majority of the board of Linaro, and as such treated it as a subsidiary undertaking during that period. Following the appointment of additional third party directors at the end of September 2010, the Group now controls only 25% of the board and therefore considers Linaro to be an associate rather than a subsidiary. During 2010, Linaro made no profit or loss and has nil net assets at 31 December 2010.

Company balance sheet/UK GAAP
As at 31 December

	Notes	2010 £000	2009 £000
Fixed assets			
Investments	4	590,815	563,686
Current assets			
Debtors	5	28,783	40,702
Cash at bank and in hand		929	172
		29,712	40,874
Creditors: amounts falling due within one year	6	(432)	(398)
Net current assets		**29,280**	**40,476**
Total assets less current liabilities		**620,095**	**604,162**
Net assets		**620,095**	**604,162**
Capital and reserves			
Called-up share capital	7	672	672
Option reserve	8	61,474	61,474
Profit and loss reserve	8	557,949	542,016
Equity shareholders' funds	9	**620,095**	**604,162**

The financial statements on pages 120 to 126 were approved by the board of directors on 28 February 2011 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 since 2007 were at a 20% discount to market price of the underlying shares on the date of announcement of the scheme, whereas all prior years' schemes were 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 loss after taxation, including dividends receivable and before dividends payable was £888,000 (2009: profit of £179,023,000). 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 100.

3 Dividends paid and proposed

	2010 £000	2009 £000
Final dividend paid of 1.45 pence per ordinary share in respect of 2009 (2009: 1.32 pence in respect of 2008)	19,022	16,634
Interim dividend paid of 1.16 pence (2009: 0.97 pence) per ordinary share	15,301	12,327
	34,323	**28,961**

21,624,158 shares were held as treasury stock by the Company at 31 December 2010. 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 1.74 pence per share in respect of 2010 (estimated total cost of £23.4 million), bringing the total dividend payable in respect of 2010 (including the interim of 1.16 pence per share) to 2.90 pence per share. This will be paid to shareholders after approval by the shareholders at the 2011 AGM.

4 Investments

The cost and net book value of interests in Group undertakings held by the Company was £590,815,000 at 31 December 2010 and £563,686,000 at 31 December 2009. 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 2010	563,686
Capital contributions arising from share-based compensation charges	27,129
At 31 December 2010	**590,815**

Where options and awards over the Company's shares have been issued to the employees of subsidiary undertakings, the fair value of employee services performed (equal to the share-based compensation 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 and physical IP components. 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

	2010 £000	2009 £000
Amounts owed by Group undertakings	28,760	40,153
Prepayments and accrued income	23	549
	28,783	**40,702**

6 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Accruals	432	398
	432	**398**

7 Called-up share capital

	2010 £000	2009 £000
Authorised		
2,200,000,000 ordinary shares of 0.05 pence each (2009: 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 (2009: 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 2010:

	Year of grant	Number of options	Range of exercise prices £	Weighted average exercise price £	Latest date of exercise
Executive Scheme	2001	197,986	2.84–3.75	3.4441	5 November 2011
	2002	212,619	2.465	2.465	18 April 2012
	2003	63,355	0.4375	0.4375	29 January 2013
	2004	71,509	1.25	1.25	29 January 2014
	2005	70,082	1.055	1.055	3 February 2015
		615,551		2.2696	
Unapproved Scheme	2004	129,458	0.9475–1.25	1.2395	21 October 2011
	2005	1,431,976	1.005–1.185	1.0715	30 October 2012
	2006	335,375	1.16–1.36	1.329	19 November 2013
		1,896,809		1.1285	
Unapproved Performance Scheme	2005	276,762	1.055	1.055	4 February 2012
	2006	800,513	1.325	1.325	1 February 2013
		1,077,275		1.2556	
US ISO Scheme	2006	93,750	1.1875–1.36	1.3429	31 August 2011
French Scheme	2005	105,750	1.0425–1.055	1.0544	30 October 2012
	2006	3,250	1.36	1.36	3 May 2013
		109,000		1.0635	
1993 Plan	2001	729,746	0.24–0.25	0.2497	4 November 2011
	2002	555,721	0.27–0.60	0.3941	28 November 2012
	2003	443,314	0.50	0.50	30 January 2013
		1,728,781		0.3603	
2000 Plan	2001	193,724	0.22–0.25	0.2439	30 August 2011
	2002	62,938	0.27	0.27	29 August 2012
		256,662		0.2503	

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	1,210,452	0.47–0.65	0.488	22 October 2013
	2004	1,984,690	0.55–1.01	0.6953	29 November 2014
		3,195,142		0.6167	
ND00 Plan	2001	26,862	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
		244,596		0.4699	
SAYE	2006	25,096	1.0264	1.0264	31 January 2012
	2007	51,457	1.104	1.104	31 January 2013
	2008	2,406,075	0.81	0.81	31 January 2014
	2009	1,146,075	0.854	0.854	31 January 2015
	2010	606,591	1.948	1.948	31 January 2016
		4,235,294		0.9897	
Total options		**13,452,860**	**0.22–3.75**	**0.8992**	

	Year of grant	Number of share awards	Latest vest date
RSU	2007	1,461,336	12 November 2011
	2008	3,543,335	1 December 2012
	2009	9,538,261	1 December 2013
	2010	11,539,588	12 November 2014
		26,082,520	
French RSU	2007	62,494	12 November 2011
	2008	185,218	1 December 2012
	2009	770,314	12 November 2013
	2010	589,571	12 November 2014
		1,607,597	
LTIP	2008	4,069,330	8 February 2011
	2009	4,990,153	8 February 2012
	2010	2,415,499	8 February 2013
		11,474,982	
DAB	2008	792,916	8 February 2011
	2009	1,530,677	8 February 2012
	2010	980,834	8 February 2013
		3,304,427	
Total awards		**42,469,526**	
Total options and awards		**55,922,386**	

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 exercisable after three years; otherwise they will become exercisable after seven years.

There is a further scheme for our French employees (the "French Scheme"). In the French Scheme, options are exercisable between four and seven years after their 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 between 2007 and 2010 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.

8 Reserves

	Option reserve £000	Profit and loss reserve £000
At 1 January 2010	61,474	542,016
Proceeds on issue of treasury shares on exercise of share options	–	24,015
Credit in respect of capital contributions arising from share-based compensation charges	–	27,129
(Loss)/profit attributable to shareholders	–	(888)
Equity dividends payable	–	(34,323)
At 31 December 2010	**61,474**	**557,949**

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 £128,354,000 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, £429,595,000 of the profit and loss account is deemed distributable.

The Company did not undertake any share buy-backs during 2010. 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. At 31 December 2010, there were 21,624,158 (2009: 60,321,361) shares in the Company still held from these purchases with a market value of £91,535,000 (2009: £107,070,000).

Offset within retained earnings is an amount of £22,059,000 (2009: £65,102,000) representing the cost of own shares held, being 21,624,158 (2009: 60,321,361) shares in the Company. These shares are expected to be used 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

	2010 £000	2009 £000
(Loss)/profit attributable to shareholders	(888)	179,023
Equity dividends payable	(34,323)	(28,961)
	(35,211)	150,062
Proceeds on issue of treasury shares on exercise of share options	24,015	19,085
Credit in respect of capital contributions arising from share-based compensation charges	27,129	19,001
Net addition to shareholders' funds	15,933	188,148
Opening shareholders' funds	604,162	416,014
Closing shareholders' funds	**620,095**	**604,162**

10 Capital commitments

The Company had no capital commitments at 31 December 2010 and 2009.

11 Financial commitments and contingencies

At 31 December 2010 and 2009 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 2010 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 and express an opinion on 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 2010;
- 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 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 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 2010.

J. S. Southgate

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

London

28 February 2011

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Our website contains information for shareholders, including regular strategic, business and financial updates.

www.arm.com/ir

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