

Chairman's statement on corporate governance and corporate responsibility



Awards for 2009:

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

Introduction

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

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

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

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

Compliance with the Combined Code and the Sarbanes-Oxley Act 2002 (US)

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

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

Corporate governance and role of the board

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

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

Directors and succession planning

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

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

Remuneration

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

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

Engagement with stakeholders

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

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

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

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

Corporate responsibility

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

In January 2009, ARM was presented with a 1 star award in the Sunday Times 'Best Company to Work For' survey, recognising us as a "first-class" employer
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Our commitment to the environment extends beyond the energy efficiency and power saving that our technology-based chips help to achieve. In our UK offices, where ARM procures its own energy, supplies are from renewable sources and a greener energy procurement policy is being extended to our other offices where possible.

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

In the UK, ARM's recycling of cardboard and paper grew by 105% from 2006 to 2009
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More details about our approach to corporate responsibility is set out in the Corporate Responsibility Report, a more detailed version of which is published on our website at www.arm.com.

2010 marks ARM's 20th anniversary

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

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



Doug Dunn
Chairman

Corporate responsibility

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

Employer awards

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

Benefits and communication

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

Feedback, development and training

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

Health and safety

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

Suppliers

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



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

Support for local communities – Team ARM

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

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

Business community

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

Environment

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

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

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

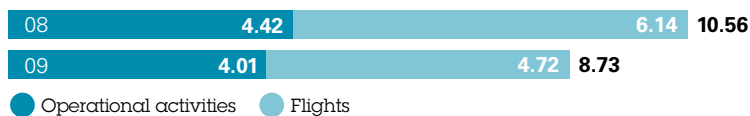
In UK offices where ARM procures its own energy, supplies are from renewable sources. The application of a greener policy on energy procurement is being extended to other ARM locations where practicable. For example, our 92,000 sq ft office in San Jose, California has incorporated some of the building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

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

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

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

CO₂ emissions Tonnes per employee*



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

Travel

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

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

Ethics and equal opportunities

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

Business continuity plans

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

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