



# **ARM Holdings plc Q2 and H1 2008 Results**

**30 July 2008  
London**

# Cautionary Statement Concerning Forward-Looking Statements

- This presentation contains forward-looking statements as defined in section 102 of the Private Securities Litigation Reform Act of 1995. These statements are subject to risk factors associated with the semiconductor and intellectual property businesses. When used in this document, the words “anticipates”, “may”, “can”, “believes”, “expects”, “projects”, “intends”, “likely”, similar expressions and any other statements that are not historical facts, in each case as they relate to ARM, its management or its businesses and financial performance and condition are intended to identify those assertions as forward-looking statements. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables, many of which are beyond our control. These variables could cause actual results or trends to differ materially and include, but are not limited to: failure to realize the benefits of our recent acquisitions, unforeseen liabilities arising from our recent acquisitions, price fluctuations, actual demand, the availability of software and operating systems compatible with our intellectual property, the continued demand for products including ARM’s intellectual property, delays in the design process or delays in a customer’s project that uses ARM’s technology, the success of our semiconductor partners, loss of market and industry competition, exchange and currency fluctuations, any future strategic investments or acquisitions, rapid technological change, regulatory developments, ARM’s ability to negotiate, structure, monitor and enforce agreements for the determination and payment of royalties, actual or potential litigation, changes in tax laws, interest rates and access to capital markets, political, economic and financial market conditions in various countries and regions and capital expenditure requirements.
- More information about potential factors that could affect ARM’s business and financial results is included in ARM’s Annual Report on Form 20-F for the fiscal year ended December 31, 2007 including (without limitation) under the captions, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is on file with the Securities and Exchange Commission (the “SEC”) and available at the SEC’s website at [www.sec.gov](http://www.sec.gov).

# Business Update

Warren East  
Chief Executive Officer

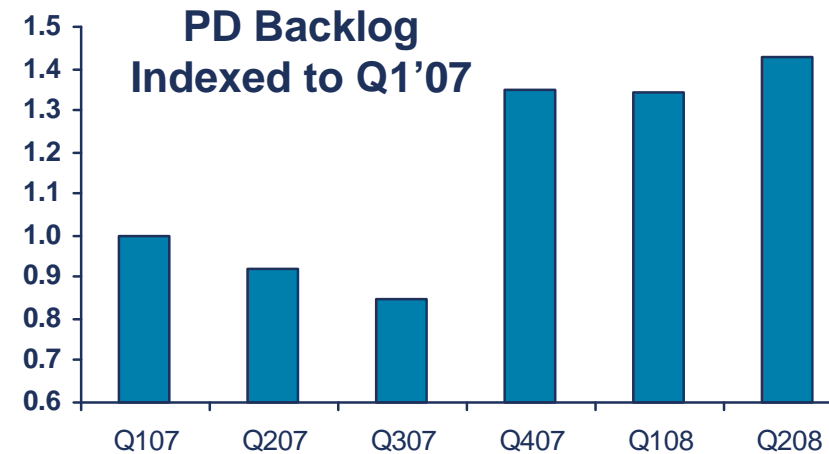
# Business Highlights

- Strong orders driving record backlog
  - Strong licensing platform delivering royalty growth
  - Healthy licensing opportunity pipeline going into H2 2008
  - Royalty momentum across the business
  - Improving results for Physical IP (PIPD)
  - Cost control and increasing cash returns
- 
- Reiterating FY 2008 guidance
    - Assuming no further deterioration in trading environment



# Q2 Processor Licensing

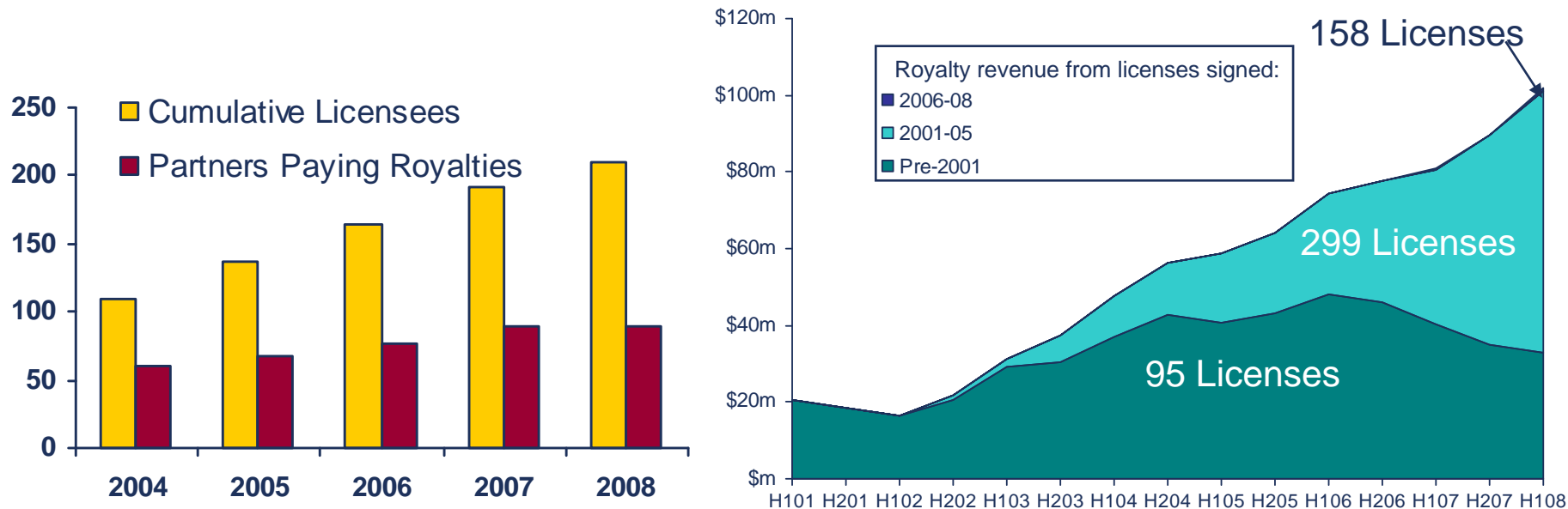
- Q2 PD licensing revenue down compared to record Q2 2007
  - Timing of deals and revenue recognition profile
  - Industry leaders making long-term commitments to ARM technology
    - Significant strategic deals
    - Licenses for advanced technology
- PD backlog up 10% sequentially, up over 50% year-on-year



- Strong momentum for processor licensing going into H2 2008
  - Healthy opportunity pipeline for mainstream Cortex products
  - Cortex-A9 now available for general licensing
  - Continuing run rate for ARM7/9/11 and Cortex processors
  - Expect lead licensing of next generation processors and Mali 3D graphics

# Licensing Platform Delivers Royalty Growth

- ARM has established a strong platform of processor licenses over many years
  - Over 550 licenses to more than 200 licensees ~100 paying royalties
  - Most leading semiconductor companies have made long-term, strategic commitments to ARM technology
  - Extending customer base to OEMs across all segments
    - Increasing pull to drive more semiconductor licensing



# Q2 Processor Royalties

- Revenue up 27% to \$51m Q2 on Q2

## Record 892m units up 37%

**Mobile devices up ~35%**

Driven by increasing sophistication per device

**Enterprise up ~30%**

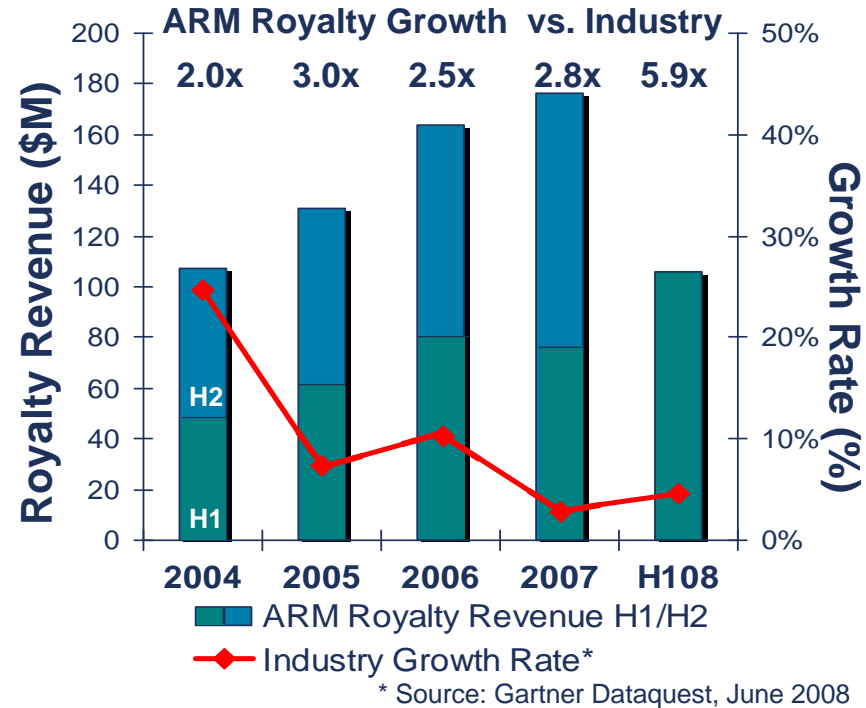
Driven by WiFi, storage and networking

**Home up ~30%**

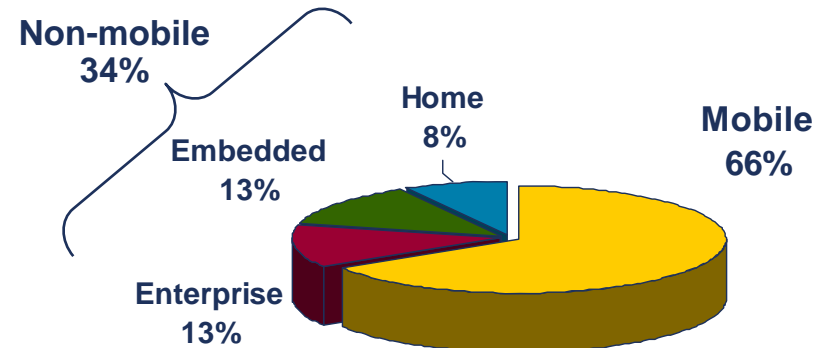
Driven by consumer entertainment devices such as DTV, STB and DVD

**Embedded up ~55%**

Driven by microcontrollers and increasing sophistication in automotive

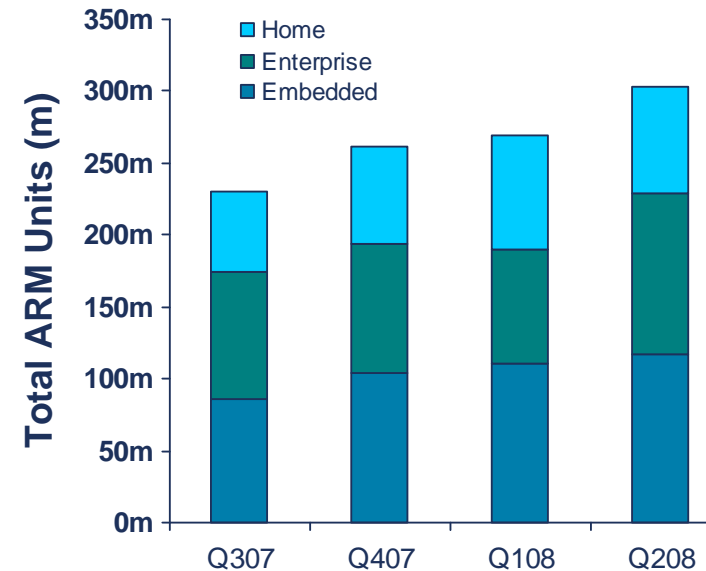
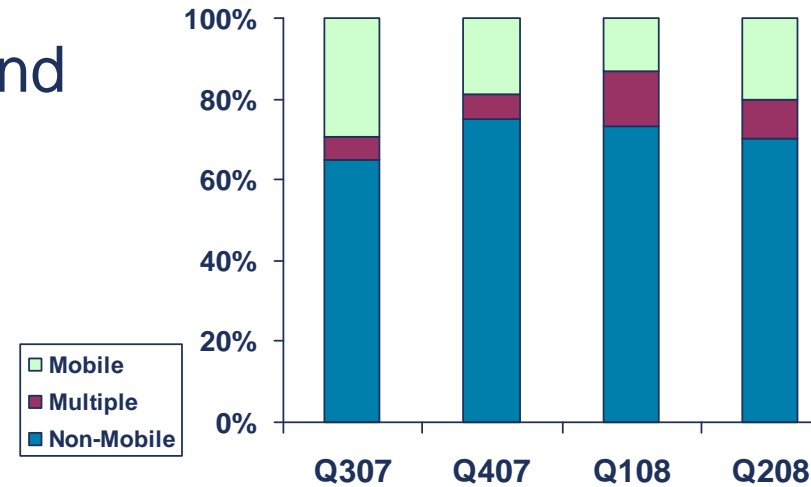


## Q2 2008 Royalty Unit Split



# Driving Growth in Non-Mobile

- ARM growing in applications beyond mobile
  - 80% of licenses in Q2 driven by non-mobile
  - Microcontrollers, networking and home entertainment
- 39% growth in non-mobile units, up over 300m
  - Continuing to gain market share against other architectures
  - OEMs standardising on ARM drives more licensing





# Driving Growth in Microcontrollers

Analyst Day 2007



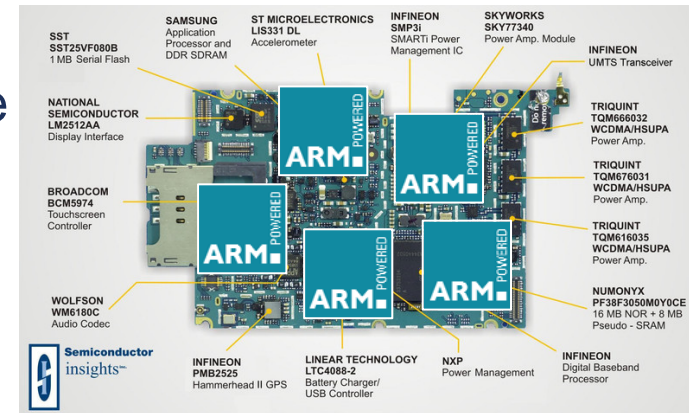
Today



- ARM increasingly adopted as the standard 32-bit MCU architecture
- Over 20 vendors offer ARM based MCUs
- Winbond and Zilog recently adopted ARM
- Arrow licenses Cortex-M3 to develop their own silicon
- More MCU announcements expected in H2 2008

# Driving Growth in Mobile

- 37% year-on-year unit growth of ARM in mobile devices
  - Rapid growth of ARM content in smartphones – increased volume & value
    - Average 1.8 cores per mobile phone up from 1.6 Q2 2007
  - Apple iPhone 3G appears to provide more royalty revenue\*
  - Significant growth in Bluetooth
  - First Cortex-A8 royalties received
- Future designs secured with today's licensing
  - Architecture license with leading handset OEM for current and future ARM technology to develop roadmap of mobile computing devices
  - New entrants into mobile market licensed ARM7, ARM9 and Mali technology



\*According to published teardowns and analyst commentary

# Driving Growth in Mobile Computing

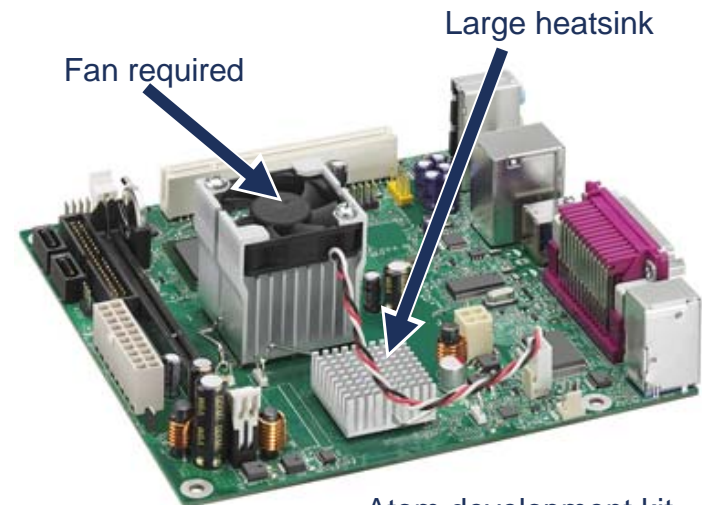
- Over the last few weeks ...
  - Qualcomm announced mini-laptop designed with Inventec
  - NVIDIA announced Tegra for netbooks based on 800MHz ARM11
  - JoinTech announced ARM9 based netbook
  - “Beagleboard” development board released, based on TI OMAP 35x
- More ARM-based mobile computer announcements expected soon



JoinTech netbook from \$99  
Based on ARM9 chip from Samsung



600MHz Cortex-A8 based Beagleboard  
No fan or heat sink required.



Fan required

Large heatsink

Atom development kit

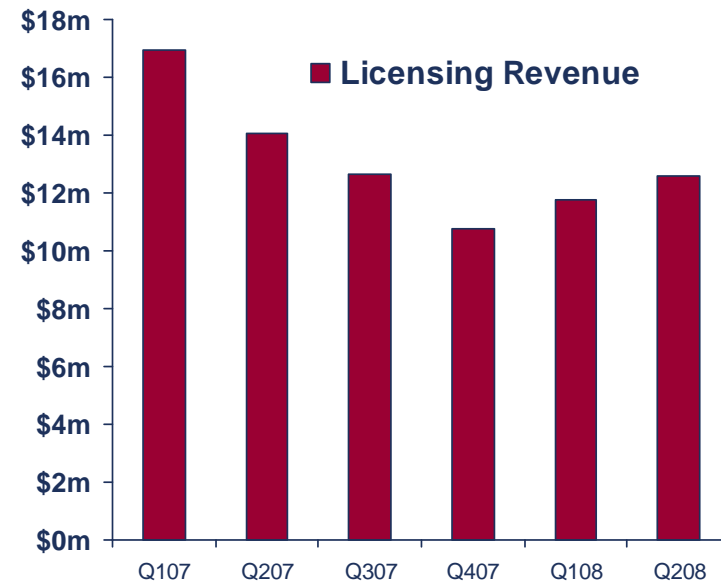
**PERSONAL  
COMPUTER  
WORLD**

Beating ARM will take years, says  
Intel's Gelsinger

He asked: "Will IA displace ARM? It would be  
decades before that is a consideration because  
of the momentum [ARM] has."

# PIPD – Measuring the Momentum

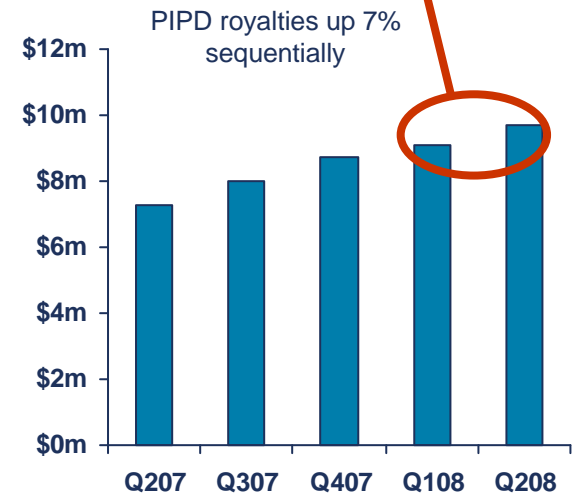
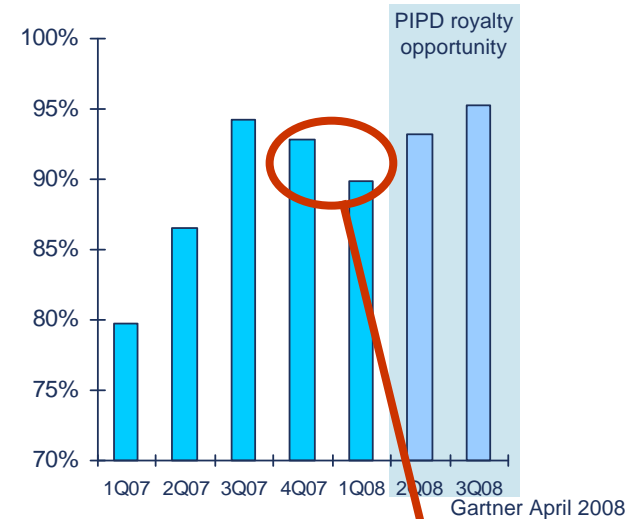
- Technology catch-up substantially completed by end 2007
  - ARM technology now ahead of customers' development cycles
  - Focus now on IP product delivery and strategic customer relationships
- Licensing momentum building
  - STMicroelectronics licenses 40nm physical IP platform
  - A further tier 1 IDM has licensed physical IP in successive quarters – most recently 45nm and 40nm
  - Four semiconductor companies licensed synergistic PD and PIPD technology
- Extending technology leadership
  - Two foundries have delivered working 45nm PIPD test chips
  - First 32nm prototype delivery to lead foundry partner



# PIPD – Royalty Momentum

- Q2 royalty revenue up 33% to \$9.7m
  - 28% increase in underlying royalties
- Q2 royalty revenue up 7% sequentially
  - Foundry utilisation predicted to increase in H2 2008
- Two IDMs and one foundry are paying royalties for 65nm ARM physical IP
  - Customers' 45nm test chips are being manufactured
- Approx 50% of free library downloads are for advanced technology nodes (90nm to 45nm)

Foundry Utilisation

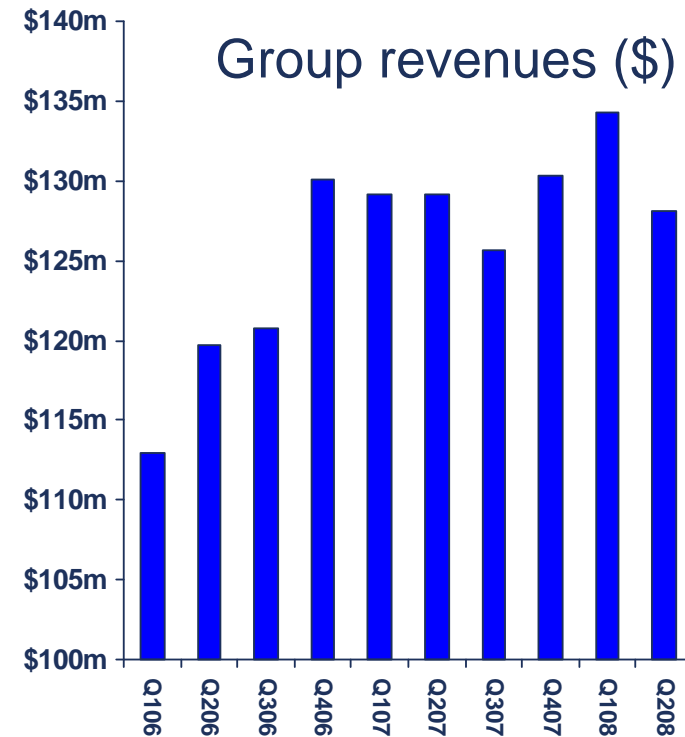


# Financial Update

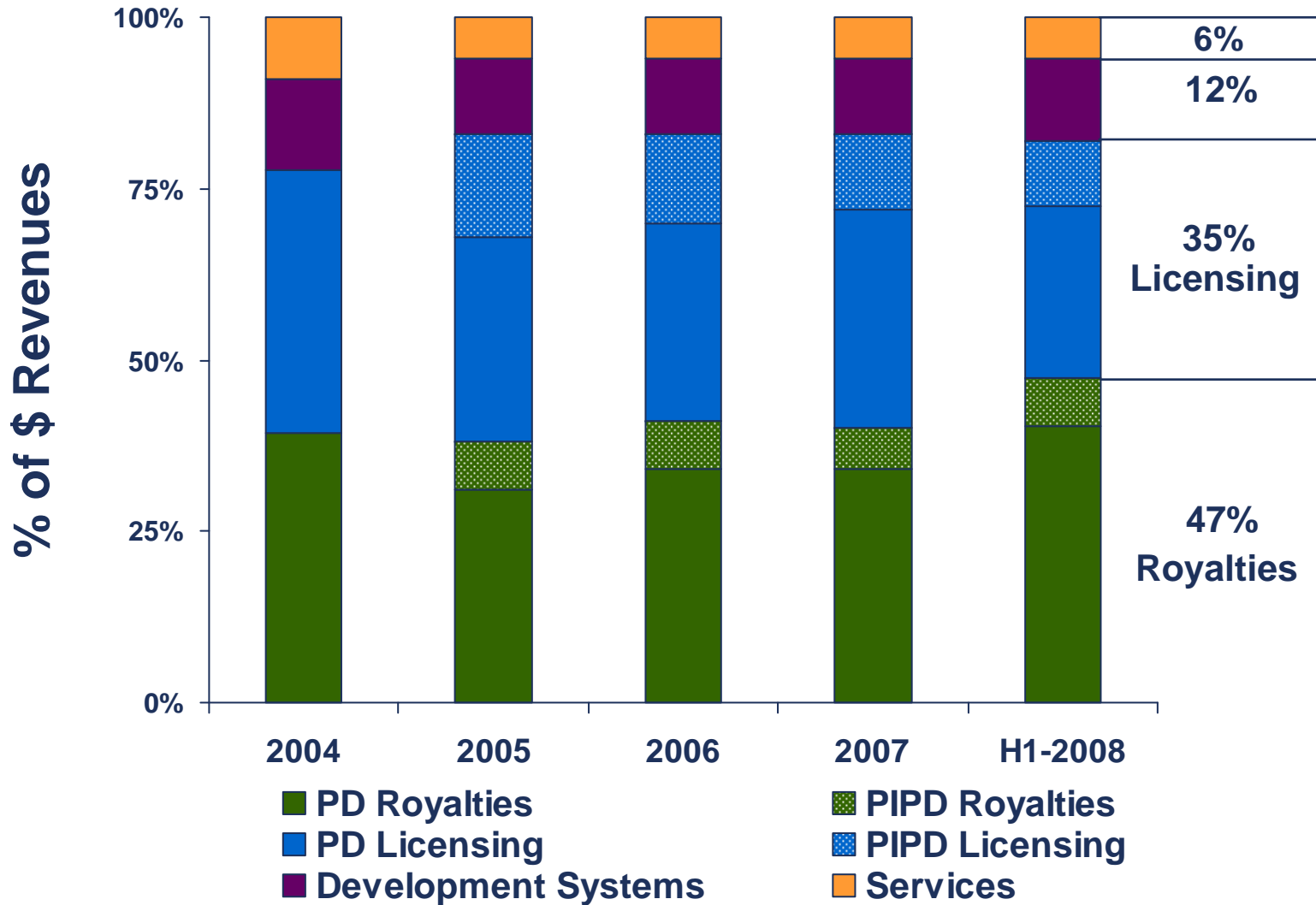
Tim Score  
Chief Financial Officer

# Q2 2008 Financial Review

- Q2 2008 revenues at \$128.1m, £65m
- Cost control in challenging trading environment
  - Gross margins higher and opex lower than Q1
  - Normalised operating margin at 31.5%
    - Normalised PBT at £21.1m
    - Normalised EPS at 1.17p
- Record generation of cash at £26.5m
  - Converting profit into cash
  - Working capital management
- Reiterating FY 2008 guidance



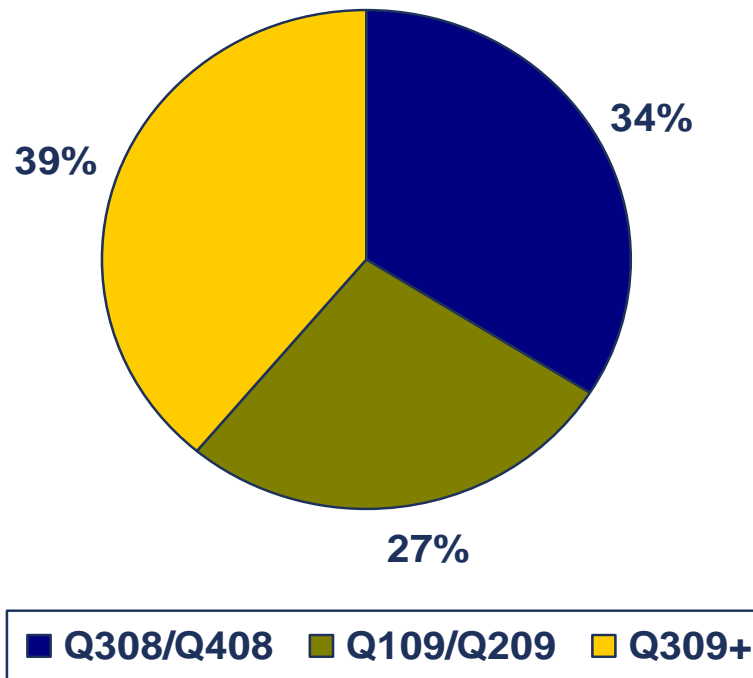
# Revenue Split Analysis



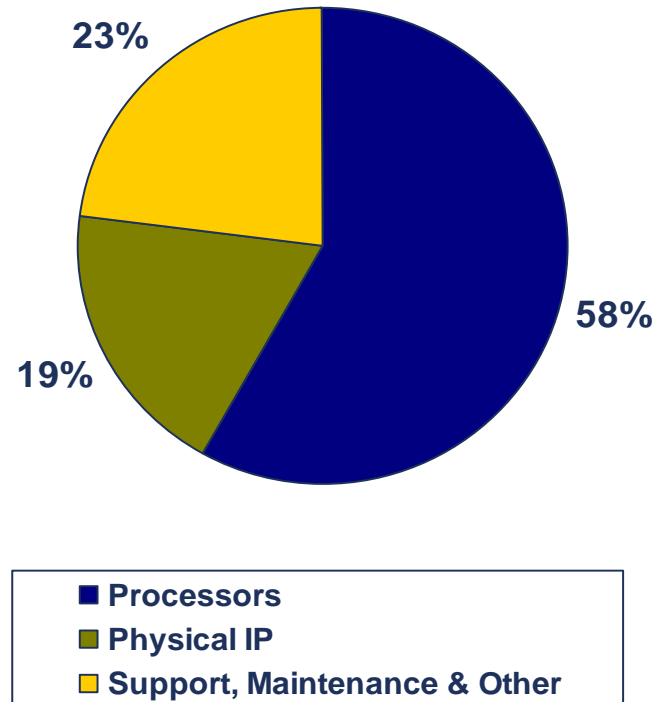


# Backlog Analysis – End H1 2008

## Backlog by Maturity Profile

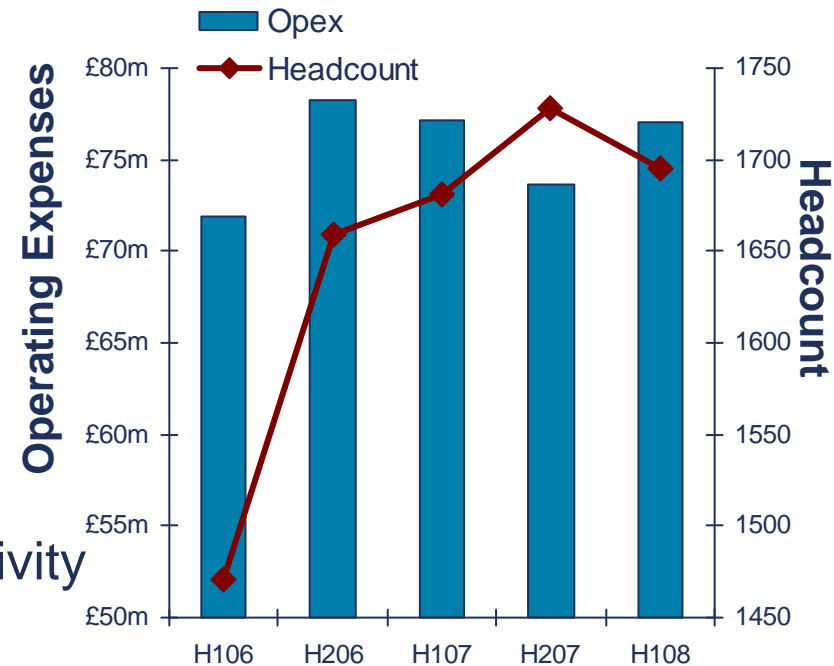


## Backlog Composition



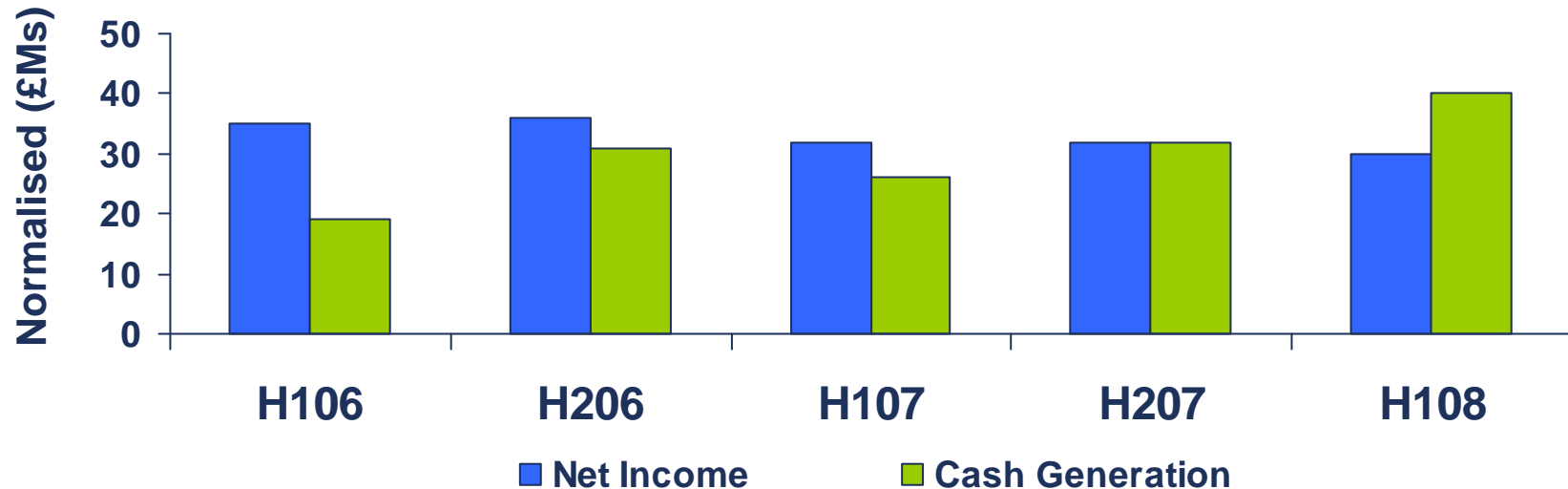
# Cost Control

- 2006 – year of significant investment
  - 25% increase in headcount
- 2007 – improving productivity
  - Modest headcount growth
  - Re-balancing of resources to lower cost regions
- 2008 – continued discipline and productivity
  - Restructured PIPD and SDD
  - Targeted investment



# Converting Profit into Cash

(£m)	H106	H206	H107	H207	H108	Total
Normalised Net Income	35	36	32	32	30	165
Normalised Cash Generation	19	31	26	32	40	148
% Cash Conversion	54%	86%	81%	100%	133%	90%



# Increasing Cash Returns to Shareholders

- Strong cash returns in quarter
  - Record generation of cash at £26.5m
  - £30.7m returned to shareholders
- Net cash of £50.6m at end Q2
- 2008 interim dividend up 10% year-on-year at 0.88p per share
- Buyback to continue

£m	Dividends	Buybacks	Total
2004-2005	19.4	16.2	35.6
2006	12.4	76.5	88.9
2007	18.5	128.6	147.1
H1 2008	15.3	28.4	43.7
<b>Total</b>	<b>65.6</b>	<b>249.7</b>	<b>315.3</b>



# Summary and Outlook

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- Strong processor licensing platform driving royalty growth across all segments
- PIPD results improving
- Financial discipline
- Growing cash generation
- Healthy position going into H2 2008
  - Record backlog
  - Healthy opportunity pipeline for licensing
  - Good royalty momentum across the business
- Reiterating guidance for FY 2008
  - FY08 revenues to increase by at least the growth rate achieved in 2007
  - Assumes no further deterioration in the trading environment

# Q&A

# Appendix

# Quarterly Results Summary

	Q307	Q407	Q108	Q208
	(£m)	(£m)	(£m)	(£M)
<b>Total revenues</b>	<b>62.8</b>	<b>64.3</b>	<b>67.9</b>	<b>65.0</b>
US\$ revenues	125.6	130.3	134.3	128.1
Effective fx rate	2.00	2.02	1.98	1.97
<b>Normalised operating profit</b>	<b>20.0</b>	<b>20.3</b>	<b>20.8</b>	<b>20.5</b>
Operating margin (%)	31.8%	31.5%	30.6%	31.5%
<b>Normalised income before tax</b>	<b>21.3</b>	<b>21.3</b>	<b>21.3</b>	<b>21.1</b>
<b>Normalised EPS (pence)</b>	<b>1.12</b>	<b>1.25</b>	<b>1.17</b>	<b>1.17</b>
<b>Net cash</b>	<b>99.3</b>	<b>51.3</b>	<b>55.2</b>	<b>50.6</b>

Numbers before acquisition-related, share-based compensation and restructuring charges and profit on disposal of available-for-sale securities.



# Q2 2008 – Revenue Summary (\$)

	Q2 2008 \$m	Q2 2007 \$m	
<b>PD</b>	<b>81.2</b>	<b>85.4</b>	<b>-5%</b>
Licensing	30.2	45.3	-33%
Royalty	51.0	40.1	27%
<b>PIPD</b>	<b>22.3</b>	<b>21.3</b>	<b>5%</b>
Licensing	12.6	14.0	-10%
Royalty*	9.7	7.3	33%
<b>DevSys</b>	<b>16.2</b>	<b>14.1</b>	<b>15%</b>
<b>Services</b>	<b>8.4</b>	<b>8.4</b>	
<b>Total revenue</b>	<b>128.1</b>	<b>129.2</b>	<b>-1%</b>

\* Includes catch-up royalty in Q2 2008 of \$1.1m and in Q2 2007 of \$0.6m

# Q2 2008 – Revenue Summary (£)

	Q2 2008 £m	Q2 2007 £m	
<b>PD</b>	<b>41.3</b>	<b>43.4</b>	<b>-5%</b>
Licensing	15.3	23.2	-34%
Royalty	26.0	20.2	29%
<b>PIPD</b>	<b>11.3</b>	<b>10.7</b>	<b>5%</b>
Licensing	6.4	7.1	-10%
Royalty *	4.9	3.6	36%
<b>DevSys</b>	<b>8.2</b>	<b>7.1</b>	<b>15%</b>
<b>Services</b>	<b>4.2</b>	<b>4.3</b>	<b>-2%</b>
<b>Total revenue **</b>	<b>65.0</b>	<b>65.5</b>	<b>-1%</b>

\* Includes catch-up royalty in Q2 2008 of £0.6m and in Q2 2007 of £0.3m

\*\* US \$/£ effective rate of 1.97 in Q2 2008 and 1.97 in Q2 2007

# H1 2008 – Revenue Summary (\$)

	H1 2008 \$m	H1 2007 \$m	
<b>PD</b>	<b>172.4</b>	<b>167.8</b>	<b>3%</b>
Licensing	66.6	82.7	-20%
Royalty	105.8	85.1	24%
<b>PIPD</b>	<b>43.2</b>	<b>46.6</b>	<b>-7%</b>
Licensing	24.4	31.0	-21%
Royalty *	18.8	15.6	20%
<b>DevSys</b>	<b>30.3</b>	<b>27.7</b>	<b>9%</b>
<b>Services</b>	<b>16.5</b>	<b>16.3</b>	<b>1%</b>
<b>Total revenue</b>	<b>262.4</b>	<b>258.4</b>	<b>2%</b>

\* Includes catch-up royalties in H1 2008 of \$1.9m and in H1 2007 of \$2.1m

# H1 2008 – Revenue Summary (£)

	H1 2008 £m	H1 2007 £m	
<b>PD</b>	<b>87.4</b>	<b>85.8</b>	<b>2%</b>
Licensing	33.5	42.6	-21%
Royalty	53.9	43.2	25%
<b>PIPD</b>	<b>21.9</b>	<b>23.6</b>	<b>-7%</b>
Licensing	12.3	15.7	-22%
Royalty *	9.6	7.9	21%
<b>DevSys</b>	<b>15.3</b>	<b>14.1</b>	<b>9%</b>
<b>Services</b>	<b>8.3</b>	<b>8.5</b>	<b>-2%</b>
<b>Total revenue **</b>	<b>132.9</b>	<b>132.0</b>	<b>1%</b>

\* Includes catch-up royalty in H1 2008 of £1.0m and in H1 2007 of £1.1m

\*\* US \$/£ effective rate of 1.97 in H1 2008 and 1.96 in H1 2007

# PD Licensing

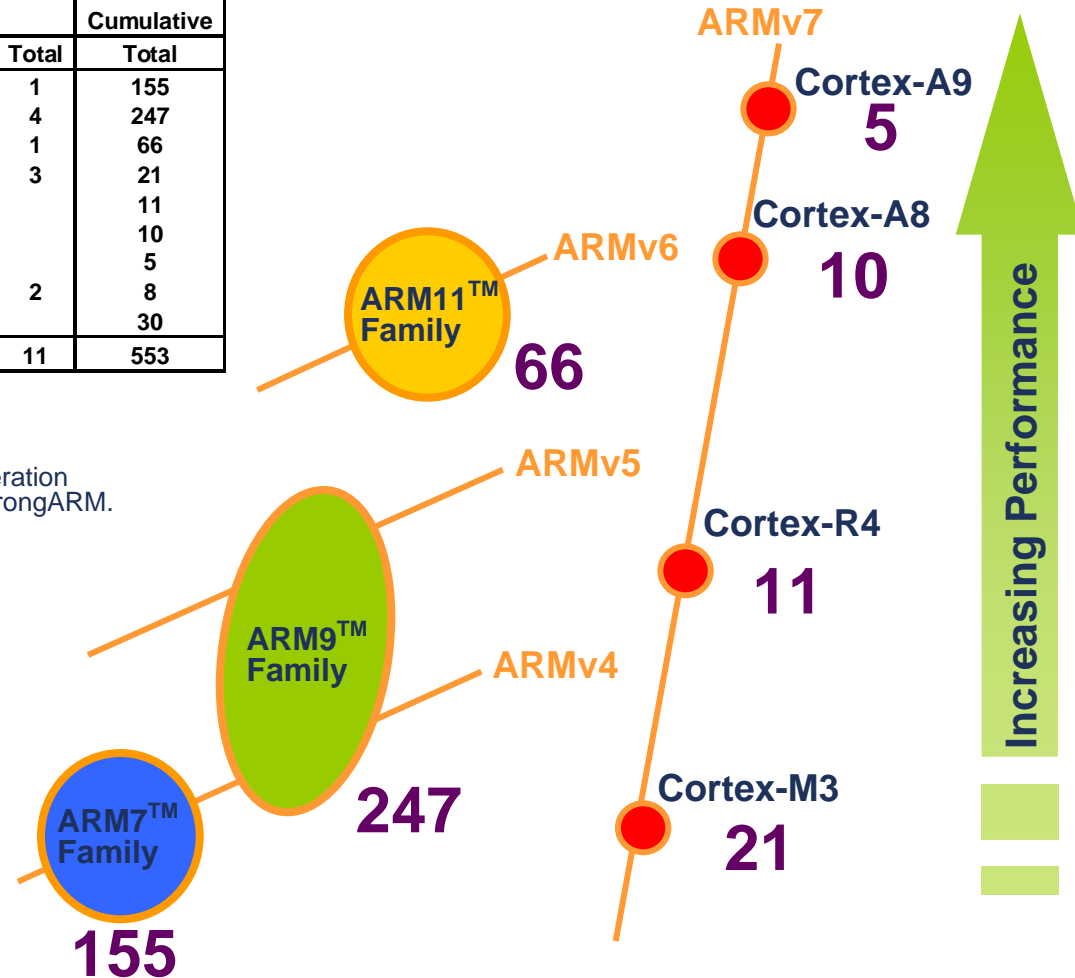
## Q2 2008 License Analysis

	Multi-use			Term			Per-use			Total	Cumulative
	U	D	N	U	D	N	U	D	N		
ARM7			1							1	155
ARM9			2			2				4	247
ARM11	1									1	66
Cortex-M3			2	1						3	21
Cortex-R4											11
Cortex-A8											10
Cortex-A9											5
Mali			1	1						2	8
Other											30
Total										11	553

U: Upgrade D: Derivative N: NEW

Note: Other includes 30 licenses that have been signed for Next Generation Cortex, ARM10™ and SecurCore™ family processors, and Xscale/StrongARM.

## Cumulative licenses

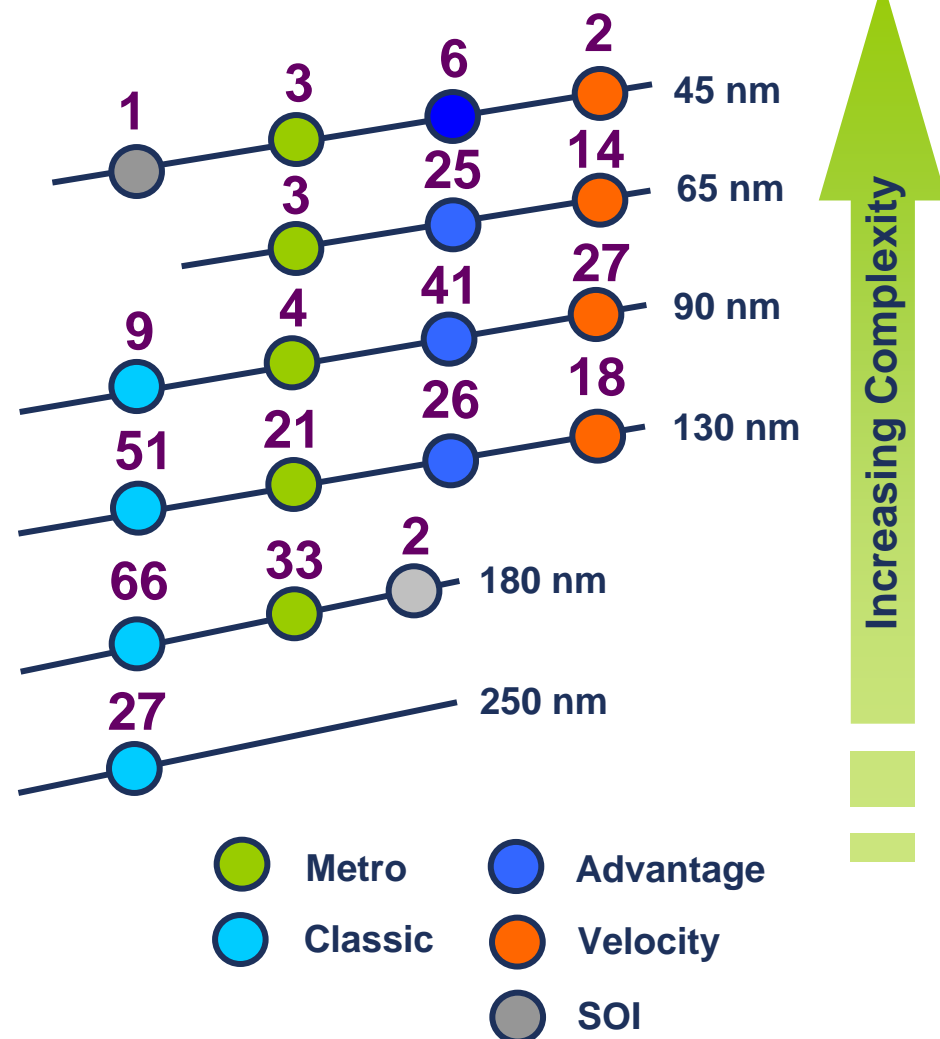


# PIPD Licensing

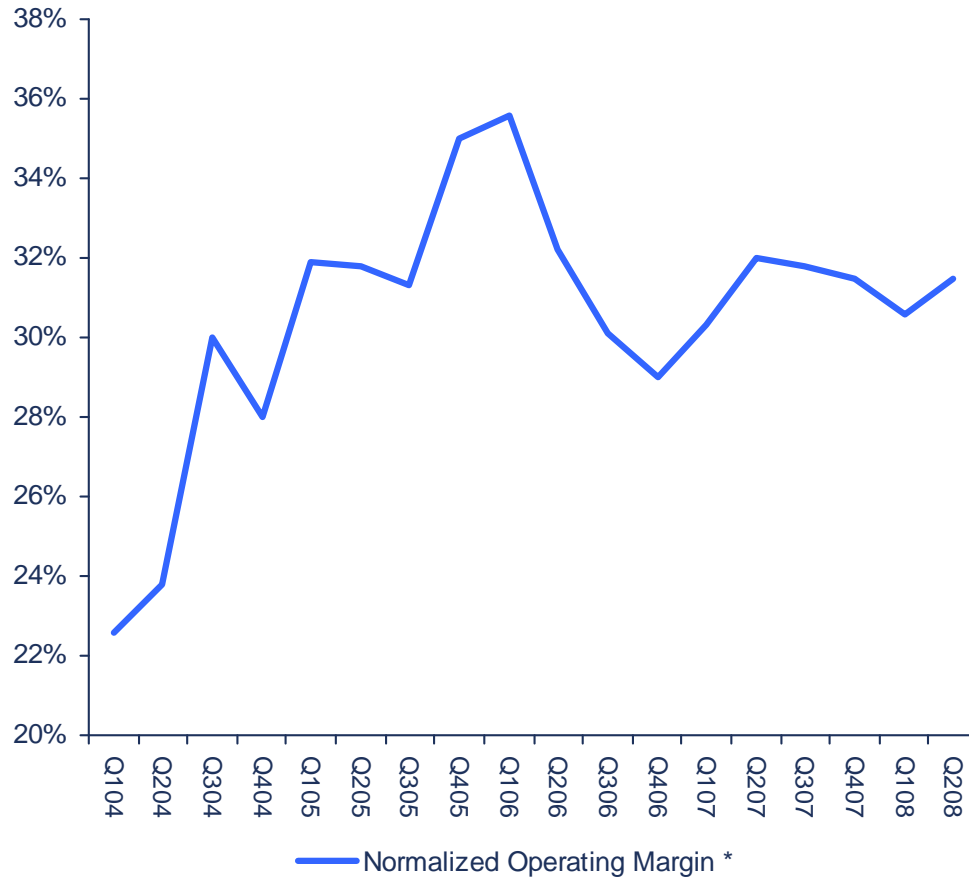
## Q2 2008 License Analysis

	Process Node (nm)	Total
Platform Licenses Advantage	65	1
Standard Cell Libraries Advantage	180/90	3
Metro	180/130	5
Memory Compilers Advantage	90/65	2
Velocity PHYs	90/65/45	5
Quarter Total		16
<b>Cumulative Total</b>		<b>379</b>

## Cumulative Licenses



# Normalised Operating Margin



	Q307	Q407	Q108	Q208
R&D (£m)*	14.8	15.1	16.3	15.3
R&D (%)*	24%	23%	24%	24%
SG&A (£m)*	21.7	22.2	23.2	22.2
SG&A (%)*	34%	34%	34%	34%
Op Mgn (%)*	31.8%	31.4%	30.6%	31.5%

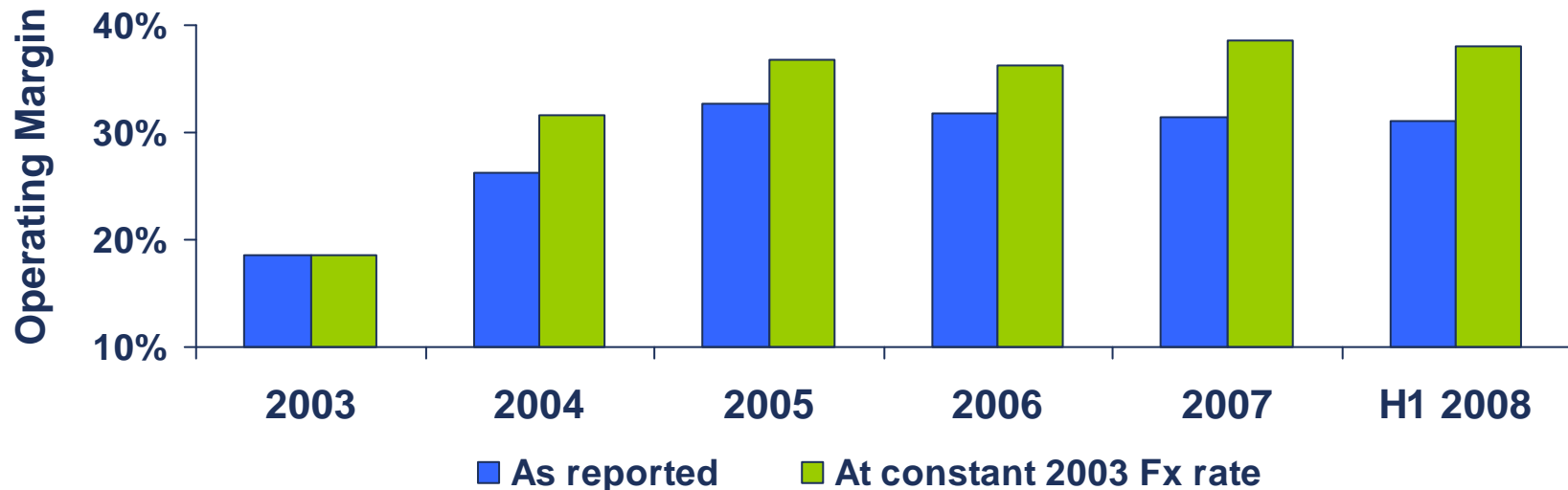
Values as percentage of sales

	FY	FY	FY	FY	Q1	Q2
	2004	2005	2006	2007	2008	2008
Effective fx Rate (\$/£)	1.78	1.80	1.83	1.98	1.98	1.97

\* Excludes acquisition-related charges, share-based remuneration charges, restructuring charges and profit on disposal of investments

# Operating Margins at Constant Currency

	2003	2004	2005	2006	2007	H1 2008
Operating Margin as reported	18.5%	26.3%	32.7%	31.7%	31.4%	31.0%
Effective Fx	1.61	1.78	1.80	1.84	1.98	1.97
Operating Margin at constant 2003 rate of \$1.61/£	18.5%	32.2%	36.7%	36.3%	38.5%	38.0%





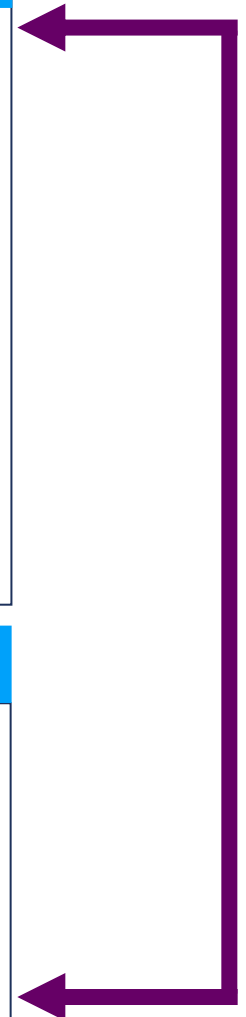
# Summary Balance Sheet

US GAAP	31 Mar 08 £MM	30 Jun 08 £MM
<b>Assets</b>		
Cash	55.2	50.6
Accounts receivable (net of AROC)	53.9	42.9
Amounts recoverable on contracts (AROC)	18.1	17.4
Other debtors, inventory and investments	42.6	51.0
Property and equipment	11.2	10.6
Goodwill	345.2	344.7
Other intangibles	35.2	30.6
<b>Total assets</b>	<b>561.4</b>	<b>547.8</b>
<b>Liabilities &amp; shareholders' equity</b>		
Deferred revenue	28.3	29.2
Other creditors	34.8	38.6
Shareholders' equity	498.3	480.0
<b>Total liabilities &amp; shareholders' equity</b>	<b>561.4</b>	<b>547.8</b>

# Cash Flow Summary

£MM	Q2 08	H1 08
Operating activities	29.9	45.4
Interest	0.5	1.0
Tax	(2.6)	(4.5)
Capital expenditure	(1.2)	(2.2)
Acquisitions (net of disposals)	(1.5)	(0.9)
Share options	1.1	3.7
Share buybacks and dividends	(30.7)	(43.7)
Other (forex)	<u>(0.1)</u>	<u>0.5</u>
Cash flow	(4.6)	(0.7)
Opening cash	55.2	51.3
Closing cash	50.6	50.6

	Q2 08	H1 08
Income from operations	11.9	23.6
Depreciation and amortisation	6.2	12.6
Share-based compensation	3.4	7.0
Movements in working capital	8.4	2.2
Operating activities	<u>29.9</u>	<u>45.4</u>



# Q2 2008 ARM Pro Forma P&L

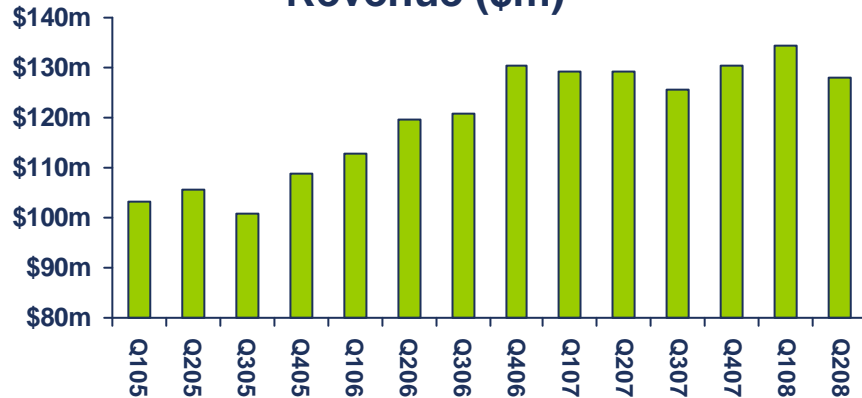
	Normalised £'000	Share-based compensation £'000	Normalised including share- based compensation £'000	Intangible amortisation £'000	Other acquisition - related charges £'000	Restructuring charges £'000	US GAAP £'000
<b>Revenues</b>							
Product revenues	60,772	-	60,772	-	-	-	60,772
Service revenues	4,243	-	4,243	-	-	-	4,243
Total revenues	65,015	-	65,015	-	-	-	65,015
<b>Cost of revenues</b>							
Product costs	(5,358)	-	(5,358)	-	-	-	(5,358)
Service costs	(1,706)	(247)	(1,953)	-	-	-	(1,953)
Total cost of revenues	(7,064)	(247)	(7,311)	-	-	-	(7,311)
<b>Gross profit</b>	57,951	(247)	57,704	-	-	-	57,704
Research and development	(15,259)	(2,400)	(17,659)	-	(105)	-	(17,764)
Sales and marketing	(10,884)	(466)	(11,350)	-	(1)	-	(11,351)
General and administrative	(11,329)	(467)	(11,796)	-	(9)	-	(11,805)
Restructuring costs	-	-	-	-	-	(469)	(469)
Amortization of intangibles purchased through business combination	-	-	-	(4,404)	-	-	(4,404)
<b>Total operating expenses</b>	(37,472)	(3,333)	(40,805)	(4,404)	(115)	(469)	(45,793)
<b>Income from operations</b>	20,479	(3,580)	16,899	(4,404)	(115)	(469)	11,911
Interest	653	-	653	-	-	-	653
<b>Income before income tax</b>	21,132	(3,580)	17,552	(4,404)	(115)	(469)	12,564
Provision for income taxes	(6,082)	797	(5,285)	1,660	38	132	(3,455)
<b>Net income</b>	15,050	(2,783)	12,267	(2,744)	(77)	(337)	9,109
<b>Earnings per share (assuming dilution)</b>							
Shares outstanding ('000)	1,290,856		1,290,856				1,290,856
Earnings per share – pence	1.17		0.95				0.71
<b>Earnings per ADS (assuming dilution)</b>							
ADSs outstanding ('000)	430,285		430,285				430,285
Earnings per ADS – cents	6.96		5.67				4.21

# H1 2008 ARM Pro Forma P&L

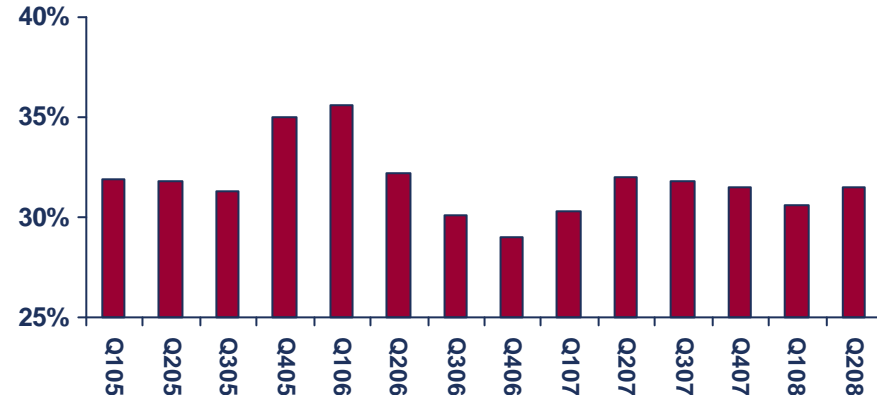
	Normalised £'000	Share-based compensation £'000	Normalised including share- based compensation £'000	Intangible amortisation £'000	Other acquisition - related charges £'000	Restructuring charges £'000	US GAAP £'000
<b>Revenues</b>							
Product revenues	124,589	-	124,589	-	-	-	124,589
Service revenues	8,314	-	8,314	-	-	-	8,314
Total revenues	132,903	-	132,903	-	-	-	132,903
<b>Cost of revenues</b>							
Product costs	(11,158)	-	(11,158)	-	-	-	(11,158)
Service costs	(3,478)	(515)	(3,993)	-	-	-	(3,993)
Total cost of revenues	(14,636)	(515)	(15,151)	-	-	-	(15,151)
<b>Gross profit</b>	118,267	(515)	117,752	-	-	-	117,752
Research and development	(31,571)	(5,016)	(36,587)	-	(143)	-	(36,730)
Sales and marketing	(21,932)	(974)	(22,906)	-	1	-	(22,905)
General and administrative	(23,515)	(974)	(24,489)	-	(18)	-	(24,507)
Restructuring costs	-	-	-	-	-	(1,187)	(1,187)
Amortization of intangibles purchased through business combination	-	-	-	(8,834)	-	-	(8,834)
<b>Total operating expenses</b>	(77,018)	(6,964)	(83,982)	(8,834)	(160)	(1,187)	(94,163)
<b>Income from operations</b>	41,249	(7,479)	33,770	(8,834)	(160)	(1,187)	23,589
Interest	1,224	-	1,224	-	-	-	1,224
<b>Income before income tax</b>	42,473	(7,479)	34,994	(8,834)	(160)	(1,187)	24,813
Provision for income taxes	(12,205)	1,638	(10,567)	3,332	54	419	(6,762)
<b>Net income</b>	30,268	(5,841)	24,427	(5,502)	(106)	(768)	18,051
<b>Earnings per share (assuming dilution)</b>							
Shares outstanding ('000)	1,297,283		1,297,283				1,297,283
Earnings per share – pence	2.33		1.88				1.39
<b>Earnings per ADS (assuming dilution)</b>							
ADSs outstanding ('000)	432,428		432,428				432,428
Earnings per ADS – cents	13.93		11.24				8.31

# ARM Financials

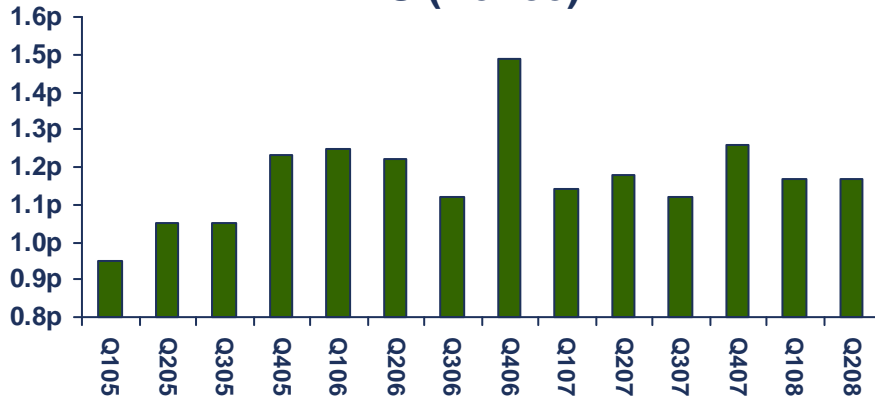
## Revenue (\$m)



## Normalised Operating Margin



## Normalised EPS (Pence)



## Cash Returned to Shareholders (£m)

