ARM Holdings plc
2002 Third Quarter Update

Sir Robin Saxby - Chairman

Warren East - CEO

Tim Score - CFO

ARM

Agenda

- Introduction - Sir Robin Saxby

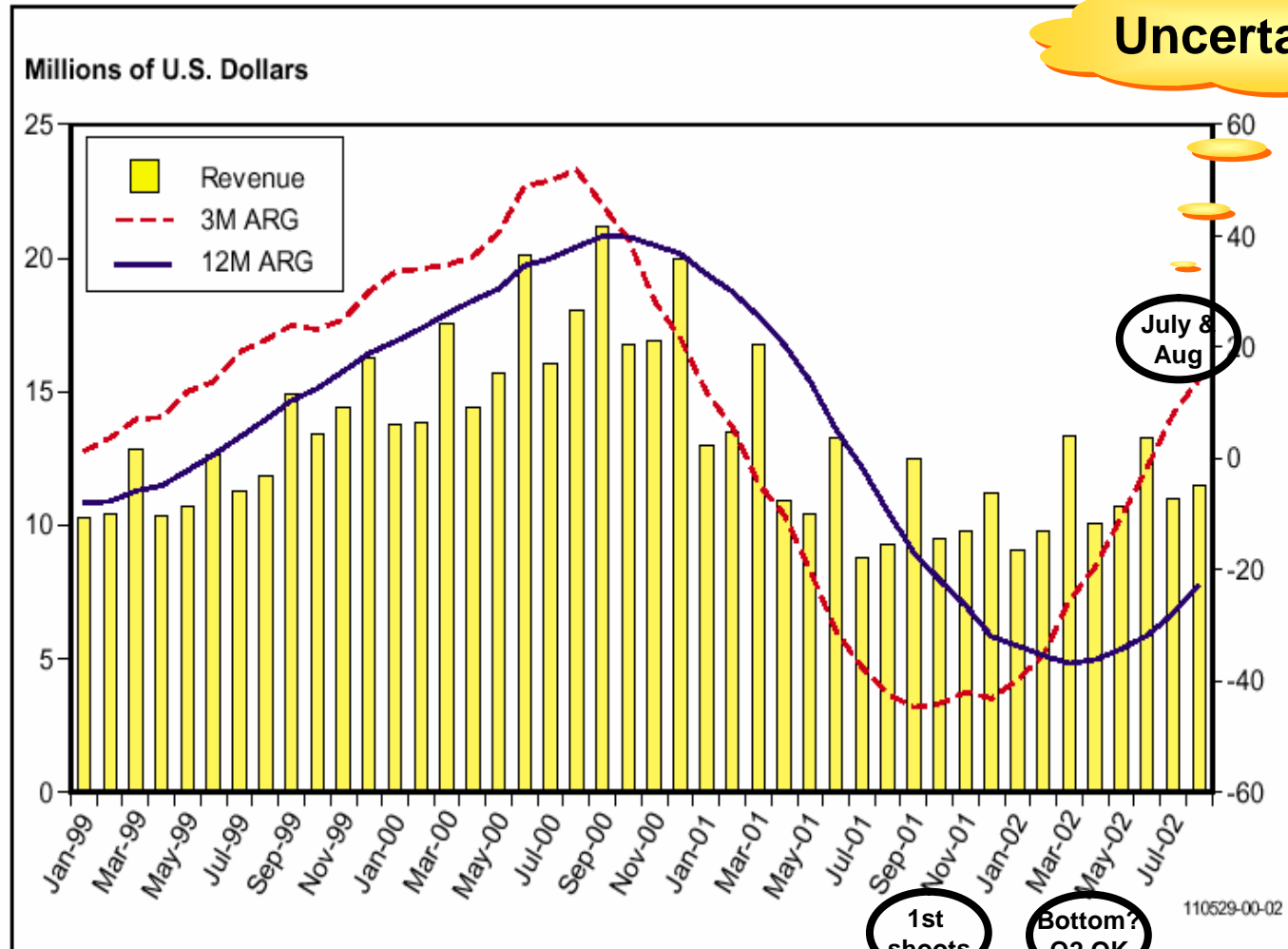- Business Overview - Warren East

- Financials Review - Tim Score

- Q&A

Sir Robin Saxby
Chairman

Recovery vs Uncertainty

Chairman Perspective on Q3

- Industry conditions catch up with us
- Momentum allows us to still make profit & generate cash
- Short term reappraisal of forecast and outlook
    - Control cost
    - Build flexibility for changing scenarios
- Maintain IP leadership
    - ARM11™ launch this week
- Strategy evolving with tighter focus on short term results, while continuing to invest in the future
- Broadening of applications in all markets and strengthening wireless position
- Strengthening partner relationships in difficult market conditions

Tomorrow's Challenges

- Moore's law predicts that by 2007…
  - 1G transistors/chip
  - 8500 MY H/W design cycle
  - Millions of lines of S/W code
  - 35nm process technology
  - Mask charges - $1M +
  - Cross talk - affecting signal integrity
  - Interconnect delay - dominating timing closure
  - Leakage - dominating power consumption

- We will help our industry find solutions to these problems

- Software presents extra challenges / opportunities

- Move to higher level design methodology and open standards

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Warren East
CEO

ARM
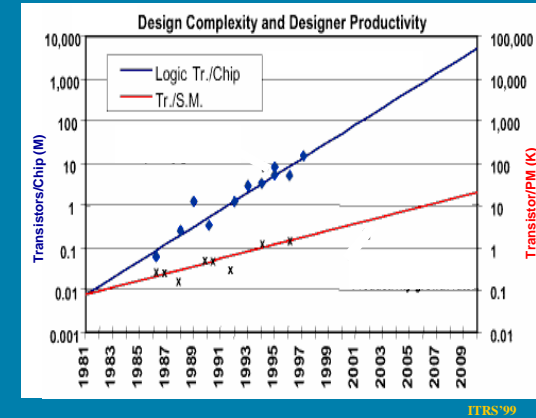
Q3 Summary

- ARM outlook at the start of Q3
  - Strong first half performance but quarters increasingly back end loaded
  - Robust pipeline - gave confidence for growth in second half consistent with that in first half
  - Reasonable prospects of industry upturn in H2
- Q3 Outturn
  - Industry conditions have not improved
  - Prolonged uncertainty has given rise to loss of confidence within the industry
  - ARM impacted by deferment of investment decisions and slippage in licensing activity

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Outlook for Q4 2002 and 2003

- Visibility of timing of licensing deal closure likely to remain obscure

- Medium term revenue forecast re-appraised

- Cost base adjusted accordingly

- Investment in future roadmap continues

- ARM momentum increasing with key OEMs and SC companies moving to the architecture across the application spectrum

- Long-term strategy intact, business models continuing to adapt to long term trends

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THE ARCHITECTURE FOR THE DIGITAL WORLD ™

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Q3 Business Highlights

- **Matsushita** - ARM926™/ARM946™ for communications products
  - More penetration with long term Japanese partner
- **Stepmind** - ARM946 for network data encryption
  - Security beyond smartcards
- **Microsoft** - 3 new ARM Silicon partners join consortium
  - ARM becoming de facto standard with MS based designs
- **Agere** - ARM1026™ for networking
  - Latest ARM10™ product starting to get traction beyond wireless
- **NeoMagic** - ARM926 and PWP for handheld devices
  - Further momentum for PWP
- **Flextronics** - ARM7TDMI® & ATAP™
  - Strategic agreement for both parties as industry structure evolves
- **Mediatek** - ARM7TDMI for low power consumer apps - eg DVD
  - Leading Taiwanese players key for high volume consumer success

Q3 Operational Update

- CPUs
  - ARM11 project on track for Q4 delivery
  - New ARM1026 product delivered to lead partners
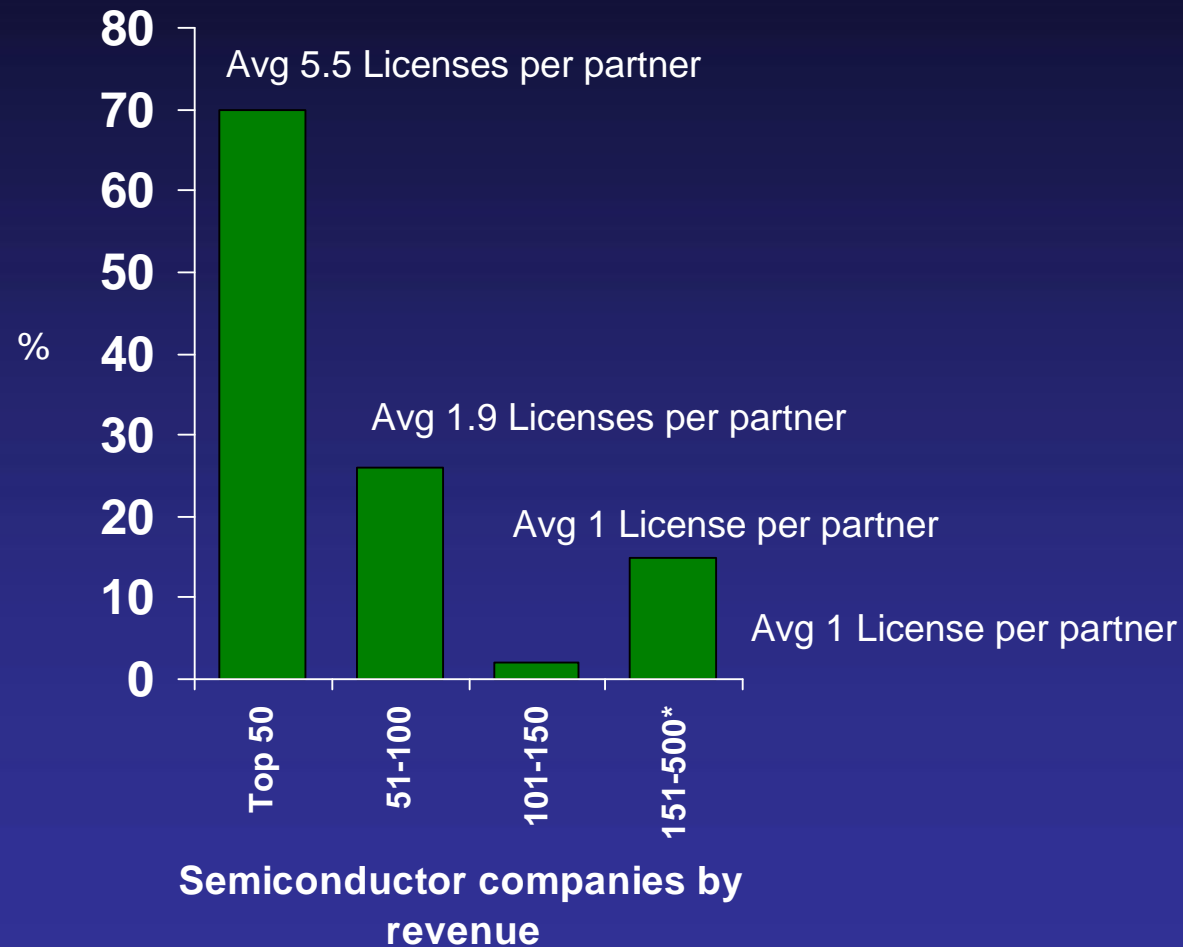- Platforms
  - # 1 thrust at APM 2002
  - New PrimeXsys™ Dual Core Platform launched
  - ARM11 PrimeXsys development ongoing - launch now, delivery Q103
- Management Changes
  - Mike Inglis joins main board as EVP Marketing
  - Strengthening of management team and business development function

ARM Penetration and Opportunity

Percentage of semiconductor companies who licence ARM cores

Avg 5.5 Licenses per partner

Avg 1.9 Licenses per partner

Avg 1 License per partner

Avg 1 License per partner

%

80
70
60
50
40
30
20
10
0

Top 50
51-100
101-150
151-500*

Semiconductor companies by revenue

* ARM estimate

2003 Business Drivers

- More OEM pull across all sectors and wireless remains strong
- Licensing
  - Opportunities for new strategic licensees
  - More penetration of existing customer base (currently 3 licenses/partner on average)
  - Further subscription and architecture agreements
- Thrust Products
  - Cores : ARM1026, ARM1136 introduction, other ARM11 products
  - PrimeXsys : ARM926 PWP, ARM11 PrimeXsys & DCP
  - Expansion of Foundry Programme - more products, more foundries
  - New Development Systems products

ARM

2003 Business Drivers

- Royalties
  - Upward pressure from: product mix; new designs (esp Storage & Imaging); new partners shipping; Foundry Programme higher royalty rates (3-5x); multicore products
- Development Systems
  - New Real View™ products
  - Standard microcontroller designs
- Services
  - Focus on PrimeXsys design activity
- Long term strategy intact

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Longer term strategy

- "The Architecture for the Digital World" means:

    - ARM technology (silicon IP, software, tools) in every Digital Device

- Growth themes

    - Partnership - developing ever deeper relationships with key partners

    - Standards - continuing progress towards becoming the significant global RISC standard

    - Market development - work with must-have OEM's by segment to deliver promises behind the reasons for 32-bit migration

    - Compute engines - roadmap and competitive barrier development

    - Systems design - crucial to future lock-in 5 yrs +

    - Platforms - value add, encouraging differentiation

    - Software - additional value and lock-in

Conflicting Forces
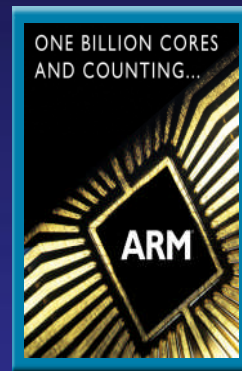
Products
Increasing diversity
… H/W
… S/W

Design & Manufacture
Increasing NRE costs
… Drives Volume
… and a single design

ONE BILLION CORES
AND COUNTING…

ARM

Conclusion
Standards and reuse
Drives Volume & Diversity

1

∞

Market Opportunity for ARM 16/32-bit

Millions of Units

7000
6000
5000
4000
3000
2000
1000
0

2001* 2002** 2003** 2004** 2005** 2006**

Legend:
- Imaging
- Automotive
- Networking
- Mass Storage
- Consumer Ent.
- Secure
- Wireless
- Microcontrollers
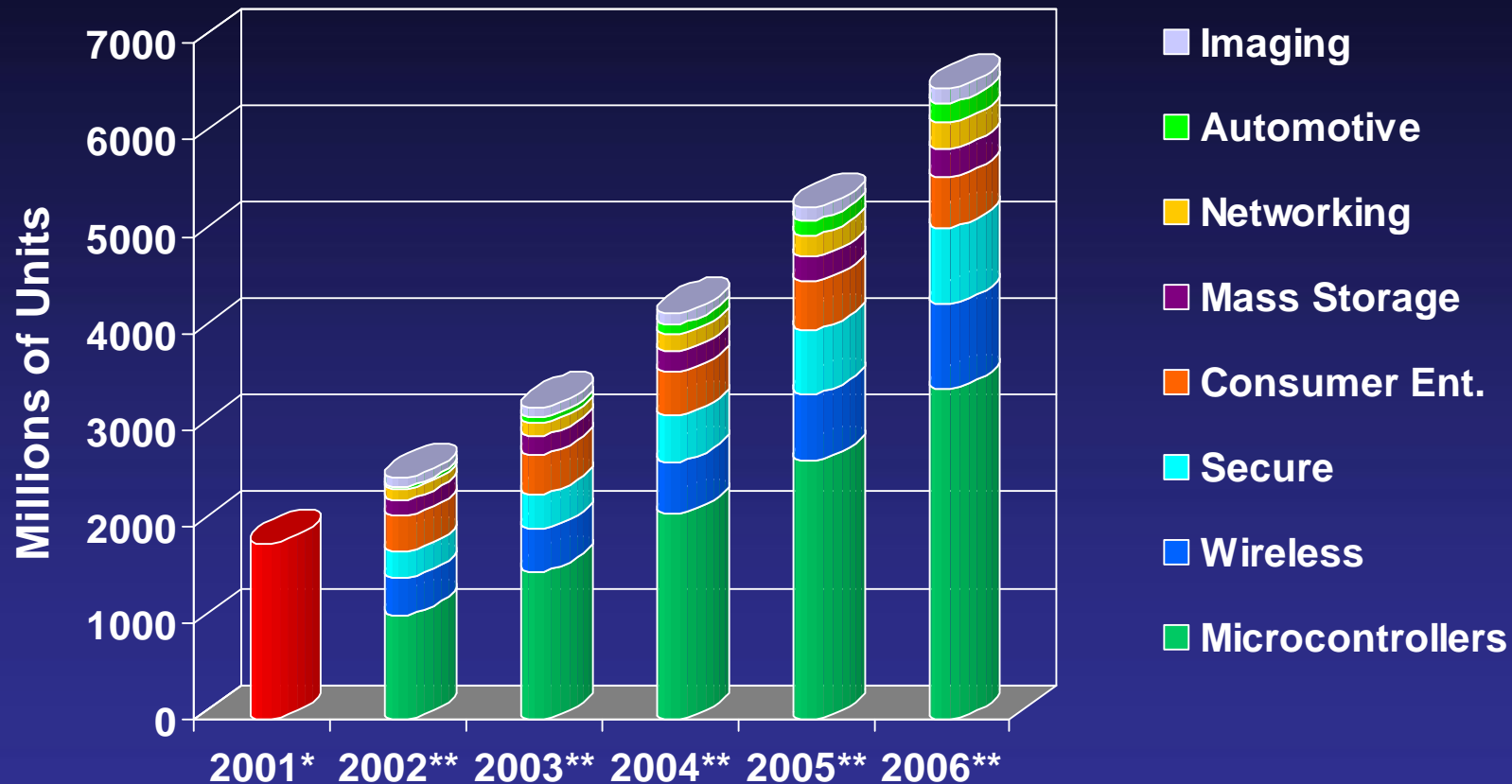
*Source: SEMICO
**Source: ARM estimates of forecasts from IDC, Instat, Gartner Dataquest, and SEMICO

ARM Design Win Drivers

PARTNERSHIP
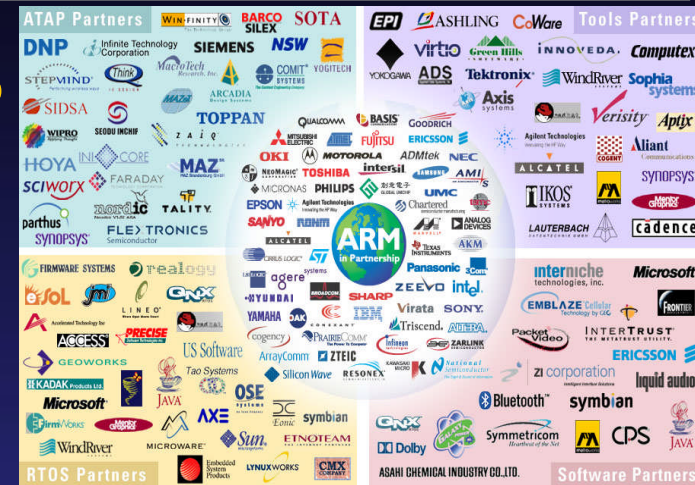
MARKET DRIVERS

- **Evolving standards need design flexibility**

- **Continual increase in functionality and application needs in all devices**

- **Convergence and interoperability between technologies and devices**

- **System complexity**

- **Flexibility in design for Software-Hardware tradeoffs**

ARM TECHNOLOGY

- **Independent architecture for open sourcing**

- **Balance of low power, high performance, efficient size with excellent code density**

- **Significant industry investment in application and support software**

- **Industry-leading code development tools, including multi-core debugging**

- **Extensive network of IP providers**

Focused Markets which Interact

- We have drivers in each application area for 32-bit migration

- More processing
  - HW & SW

- Better system power efficiency

- Minimising design risk

- Reducing time-to-market

- Better design tools & methods

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Recent Market Announcements

- Pace launch new BSkyB set top box based on ARM940™

- Intel has big push into wireless with XScale, wireless MMX and ARM® architecture

- Intel announces extended wireless PC initiative to distribute media to TVs, HiFi systems

- AIEC announces world's fastest automotive grade ARM Powered ® embedded flash microprocessor

- LSI ARM922T™ core based AR900 ADSL ethernet modem ASSP

- TI ARM7TDMI core based ACX100 802.11b ASSP

- GlobespanVirata ARM9™ core based Helium 500 ATM/IP communications processor for DSL and home routers

- TI's new WLAN processor first to enable true WI-FI mobility and extend battery life in WLAN laptops, PDAs & smartphone (ARM7™ core based)

- Conexant network processor provides connectivity for broadband routers
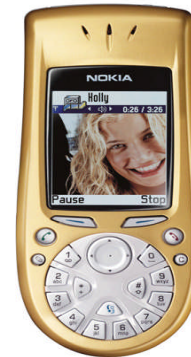
Recent Product Introductions

**Acer
n20**

**Sony Color CLIÉ™
Handheld w/ digital
camera & MP3 player**

**O2 XDA
PocketPC**

**Nokia
3650**

**Pocket PC
phone
edition from
T-Mobile**

**Samsung
i500**

Recent Product Introductions

PACE BSkyB +
Set Top Box

Panasonic
NV-MX1000 DVC

Fujitsu-Siemens
PocketLOOX PDA

Impactra
Motion-i
Handset

SonyEricsson
HBH-60 BT
headset

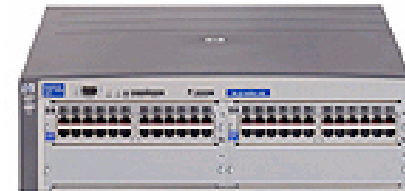Orange
Smartphone

Recent Product Introductions

Symbol Technologies PDT8100 Portable Data Terminal

Filanet InterJak 200 Security Platform

HP Procurve Modular Switch

SonicWALL Pro 300 Internet Security Appliance

Psion-Teklogix Netpad

EtherFast Cable/DSL Firewall Router

Summary

- Very difficult market conditions expected
- Cost reduction whilst maintaining long term investment
- Strategy continues to evolve
- Long term growth drivers intact
- ARM position strengthened
- Traction in all segments beyond wireless and wireless strong
- Partnership growing
- Significant further growth potential

Tim Score
CFO

Q3 2002 - Financial Highlights

- Total revenues of £33m due to slowdown in licensing momentum

- 8 licenses signed with 7 Partners - 6 multi-use, 2 per-use

- $ royalties marginally up vs Q2 - 3 per-use Partners now shipping

- Operating margin at 21% despite lower revenues

- Backlog down vs Q2 by less than 15%

- Backlog profile changes due to 2002 licensing of mature products

- Company continues to generate cash

- Receivables ageing remains healthy

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Results Q3 2002

	Q302	Q301		Q202
	£MM	£MM		£MM
Total Revenues	33.3	37.6		43.2
Operating Profit	7.0	11.7		15.1
M gn	*21.0%*	*31.1%*		*34.9%*
PBT-US GAAP	8.0	12.9		16.2
Net -US GAAP	5.7	8.8		11.5
EPS - US GAAP	0.6	0.9		1.1

Revenue Breakdown

Q2 2002

Q3 2002

Q2 2002 pie chart: 60%, 15%, 14%, 8%, 3%

Q3 2002 pie chart: 53%, 19%, 15%, 10%, 3%
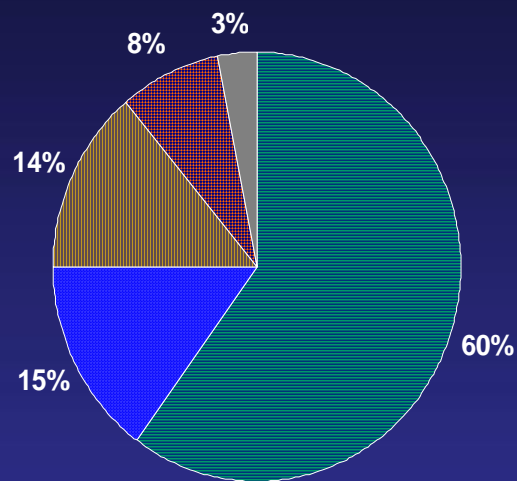
Legend:
- Licensing
- Dev Sys
- Consulting
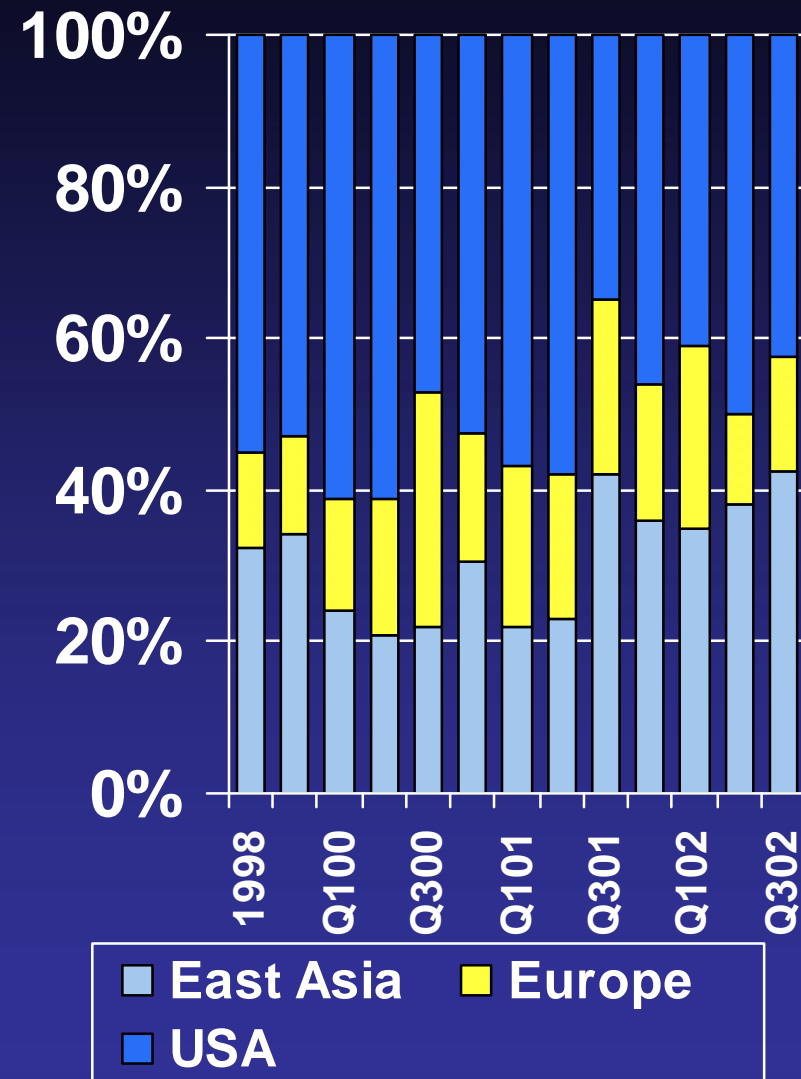- Royalties
- Support
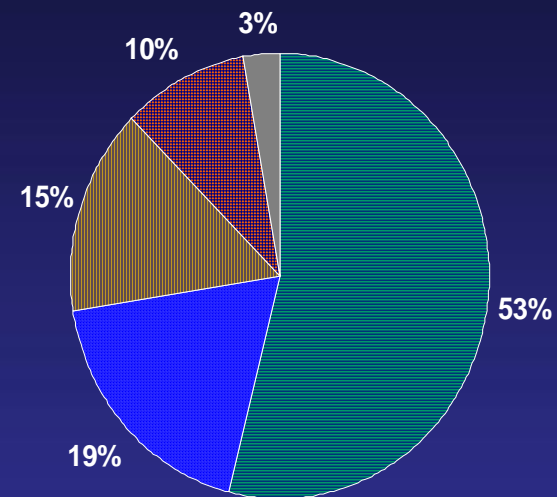
Geographical Analysis

- ## Revenues Q3 02
  - 42% USA (35% Q3 01)
  - 43% East Asia (42% Q3 01)
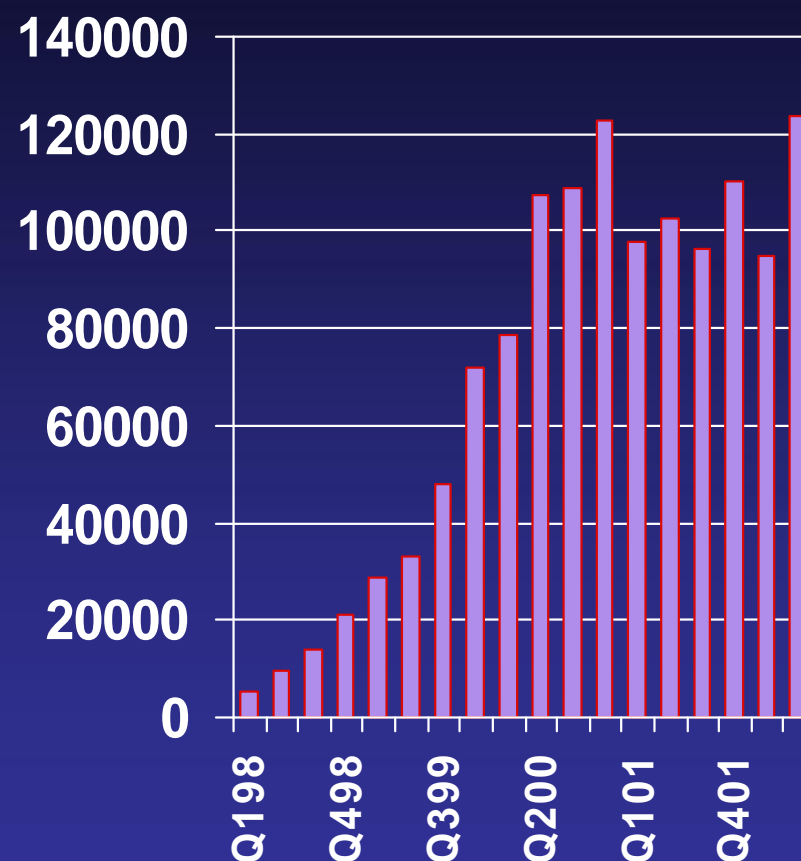 - 15% Europe (23% Q3 01)

- ## Bookings Q3 02
  - 37% USA
  - 53% East Asia
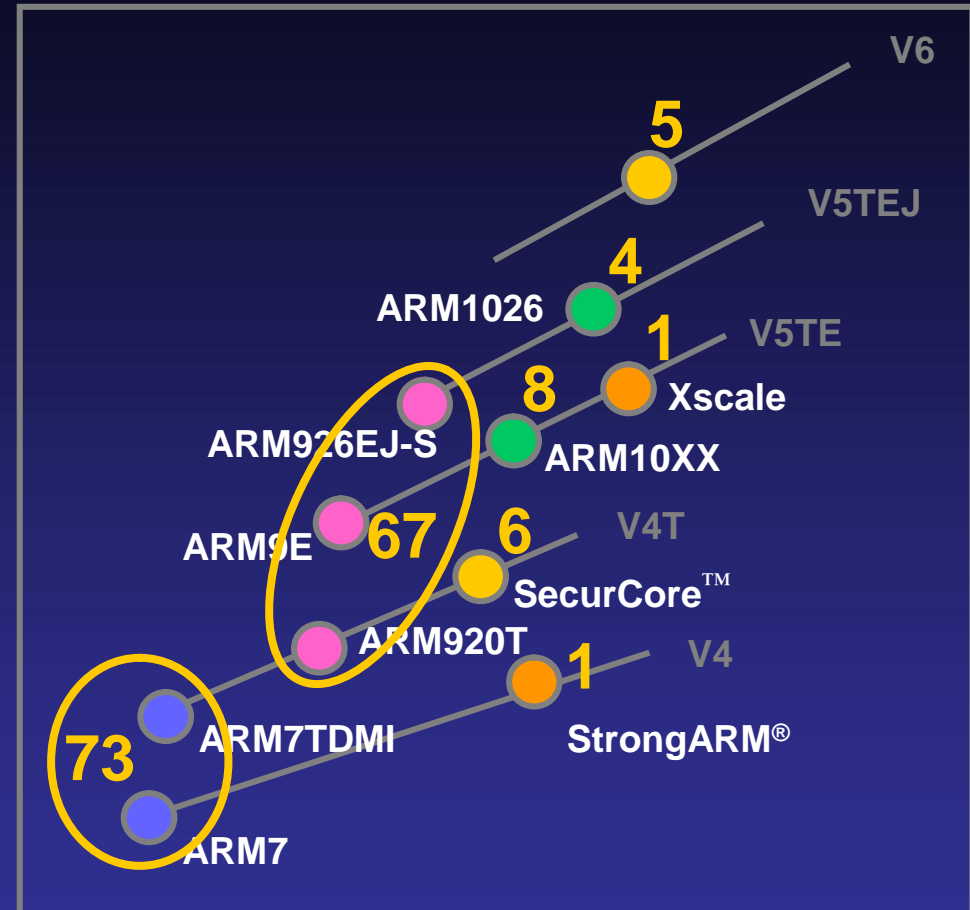 - 10% Europe

Chart legend: East Asia, Europe, USA. X-axis: 1998, Q100, Q300, Q101, Q301, Q102, Q302. Y-axis: 0% to 100%.

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Royalties

	Q1 02	Q2 02	Q3 02
Roy.Revs, £	6.4M	6.5M	6.2M
% of Revs	15%	15%	19%
Units	110M	95M	124M
No.shipping	34	35	37
Roy.Revs, $	9.2M	9.4M	9.6M

Units

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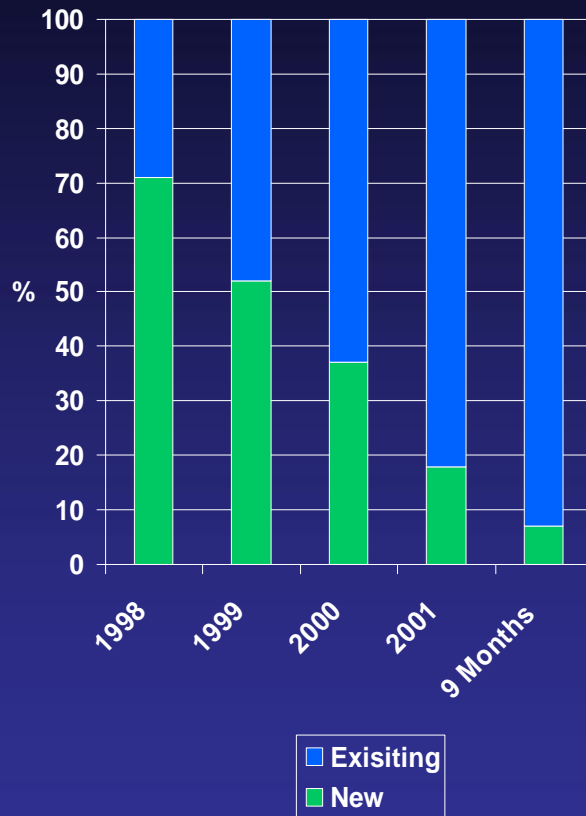
Core Licensing

- Q3 02: 8 licenses
- 2 new Partners in Q3 2002
  - 2 per use
- 4 upgrades
  - 1 x ARM11 family
  - 1 x ARM1026 core
  - 2 x ARM926 cores
- 2 "derivatives"
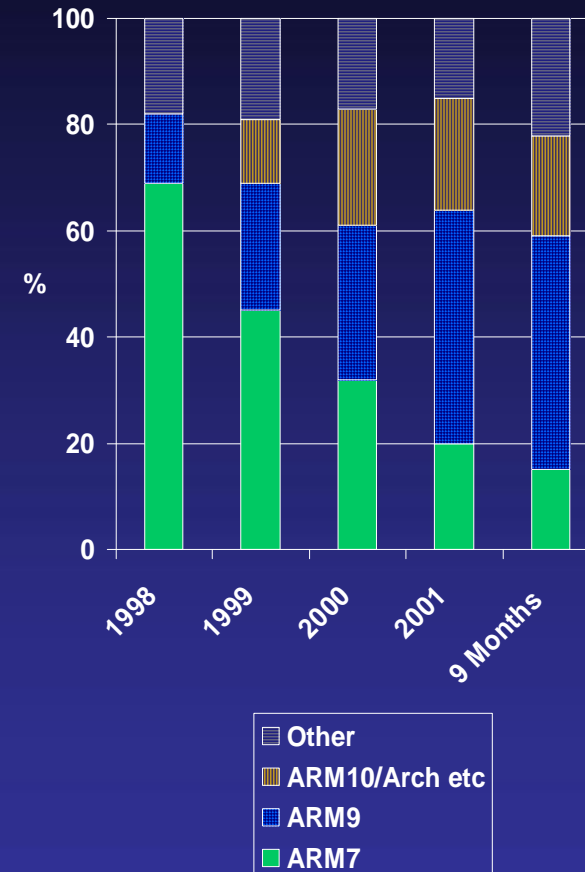- 101 Partners at end of Q3

V6

5

V5TEJ

4

ARM1026

1 **V5TE**

8 Xscale

ARM926EJ-S

ARM10XX

67 **6** **V4T**

ARM9E

SecurCore™

ARM920T **1** **V4**

73 ARM7TDMI

StrongARM®

ARM7

Partner access to core families

Licensing Activity

New vs Existing Licensees

Core and Non CPU-Core Licenses

Legend (left chart):
- Exisiting
- New

Legend (right chart):
- Other
- ARM10/Arch etc
- ARM9
- ARM7

Customer concentration : Largest customer 6%, Top Ten customers 39%

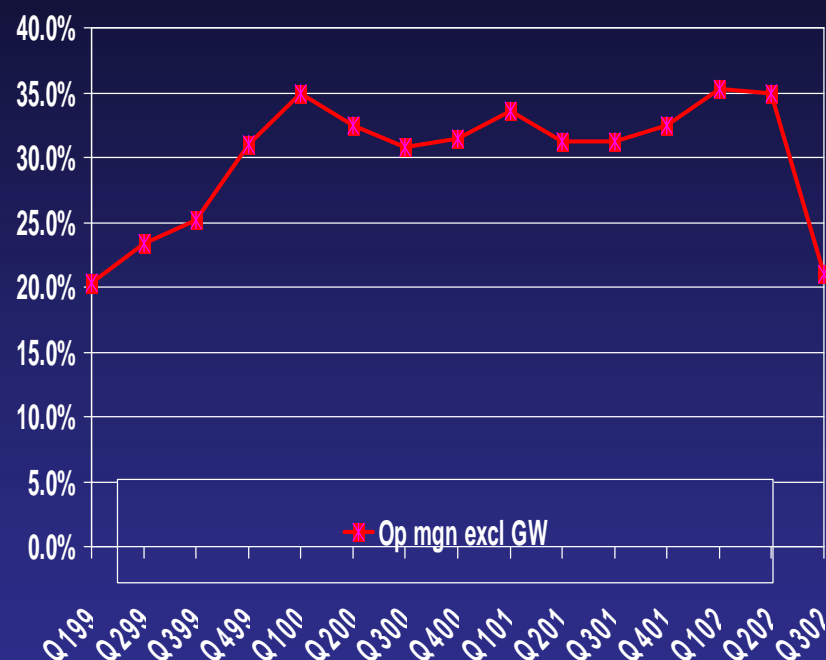**ARM**

Development Systems

- Dev't systems sales Q3 02
  - 32% (35%) USA
  - 42% (39%) East Asia
  - 26% (26%) Europe
- 15% of revenues in Q3 02 and 14% in Q2 02
- 35% revenues through distribution - growing
- 12 distributors in total - 2 China, 2 Japan, 4 Europe, 1 Taiwan, 1 USA, 1 Israel, 1 New Zealand
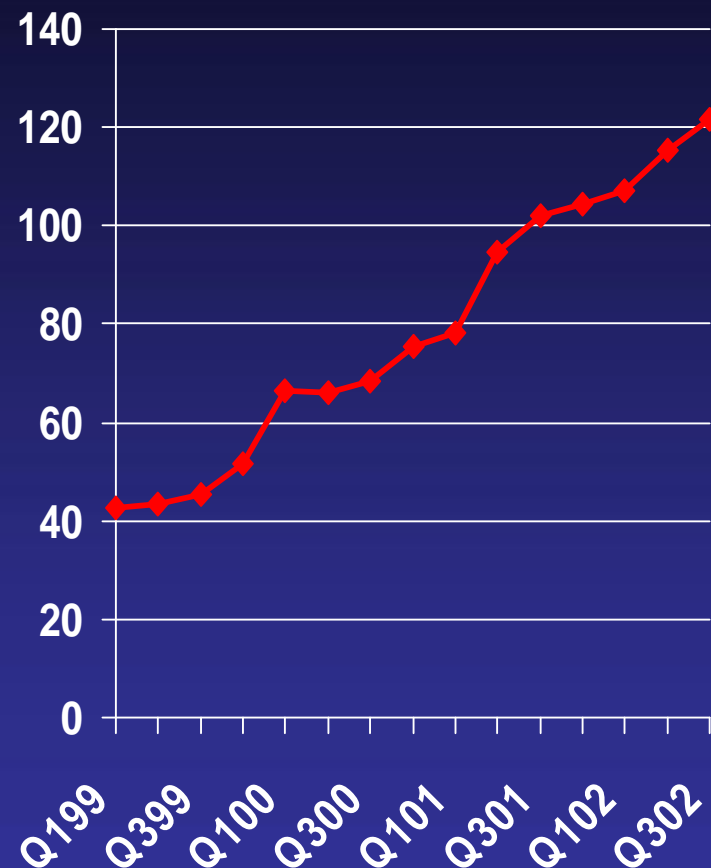

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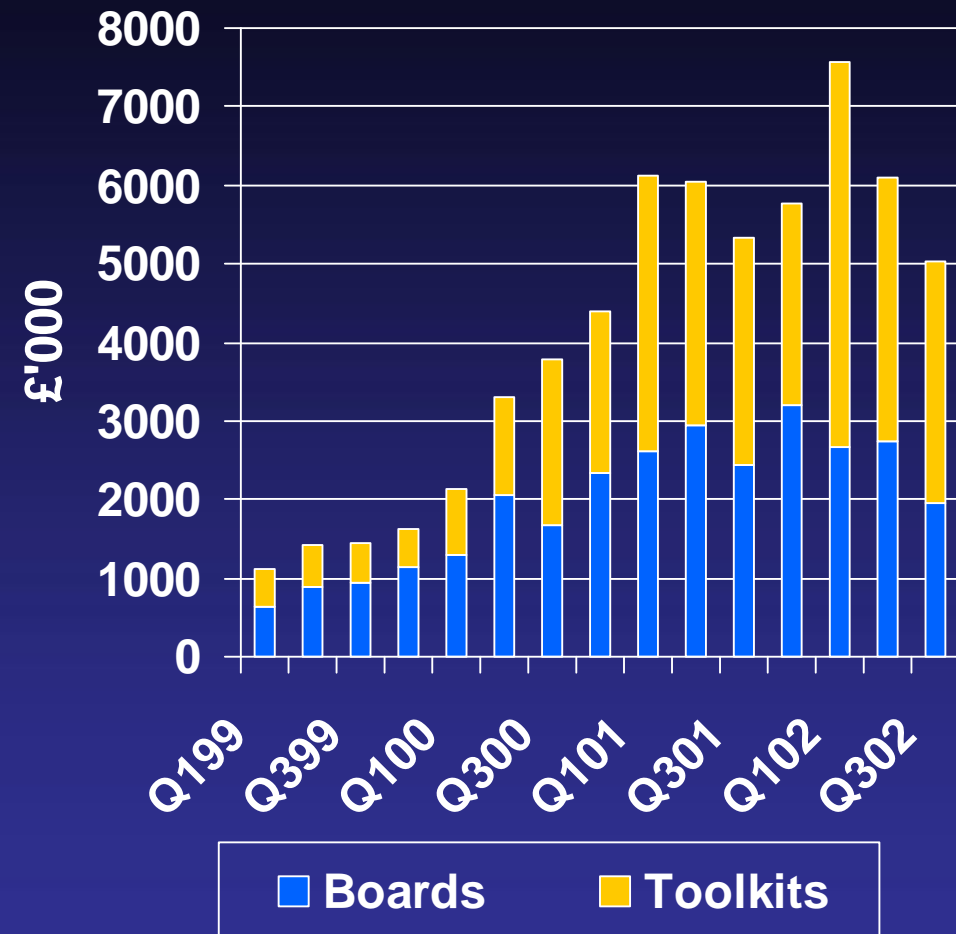
Operating Margin Trend

	Q2 02	Q3 02
R+D, %	30.1%	36.7%
R+D, £M	13.0	12.2

	Q2 02	Q3 02
SG+A, %	28.7%	31.4%
SG+A, £M	12.4	10.4

	Q2 02	Q3 02
Op Mgn	34.9%	21.0%

Values as percentage of sales

Cash Generation in Q3 02

	Q2 02	Q3 02
	£MM	£MM
Op Cashflow	16.8	16.4
Capex/Invest	-4.4	-5.6
Tax	-4.3	-4.5
Cash balance	115.4	121.7

Accounts Receivable

- Ageing remains healthy
- Provision increased to reflect per use programme
- Cash collection more challenging in difficult market conditions

|	Q1 01	Q2 01	Q3 01	Q4 01	Q1 02	Q2 02	Q3 02
	£MM	£MM	£MM	£MM	£MM	£MM	£MM
Trade Receivables	32.5	27.7	27.2	24.8	33.3	40.2	28.2
Bad Debt Provision	0.1	0.3	0.5	0.8	1.2	2.3	2.1

Deferred Revenues
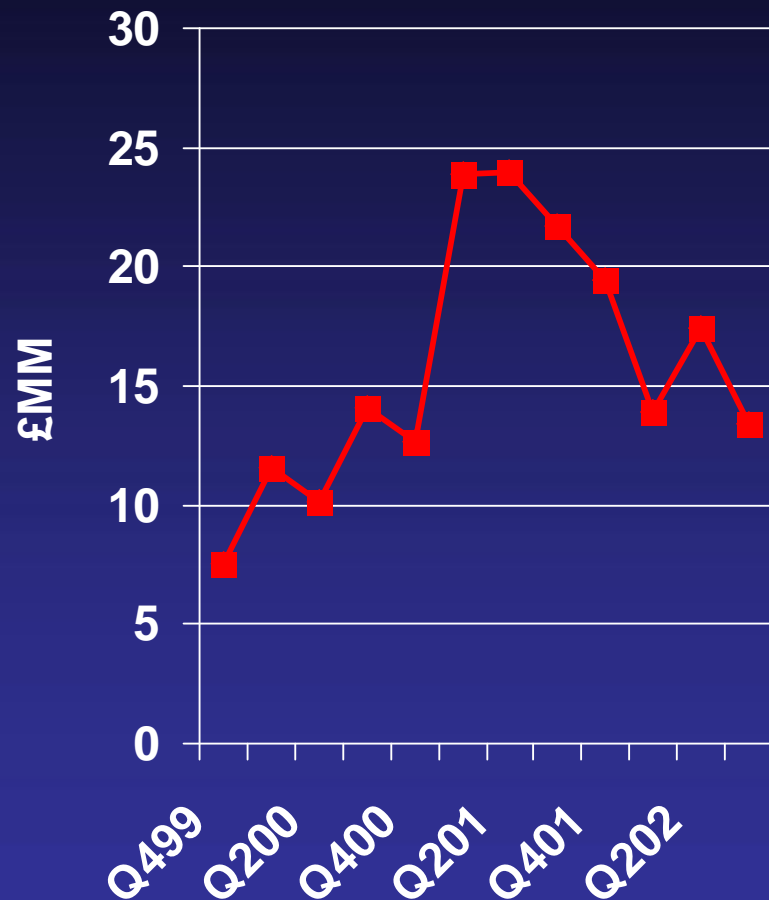
- Deferred revenues: invoiced sales not yet recognised - ARM has never changed accounting policy
- Small proportion of total backlog
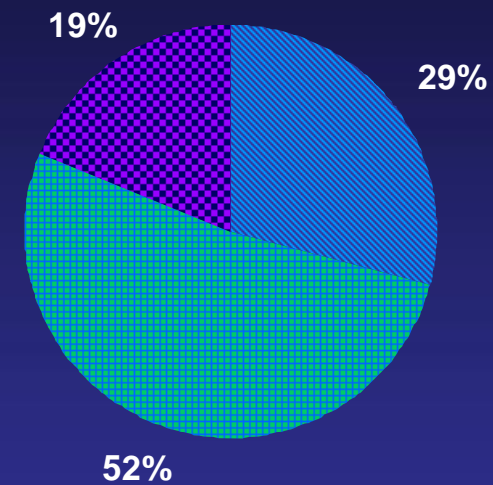- Amount dependent on product maturity mix of portfolio

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Backlog

Backlog by Maturity Profile

42%

35%

23%
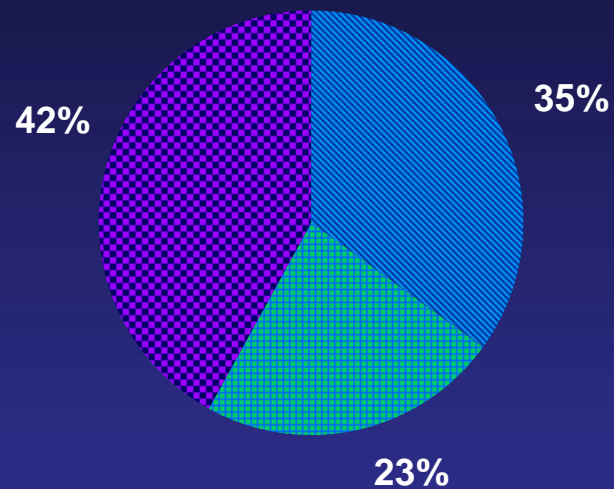
| Q402/Q103 | Q203/Q303 | Q403+ |

Backlog Composition

19%

29%

52%

- Subscription & Architecture
- Cores
- Support, maintenance & other

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