



*Enabling connectivity. Empowering people.*

## *Letter To The Stockholders*

March 5, 2008

PMC-Sierra Stockholders,

2007 was a year of progress for PMC-Sierra. In the second half of the year, we had the best cash flow and non-GAAP profitability since year 2000. Most important is the state of the infrastructure market. With new applications such as IPTV, VOD, YouTube, Google's Picasa Web, Cisco's Telepresence, and Facebook amongst others, the first generation Internet infrastructure has reached the limits of its functionality. The Next Generation Internet, or Web 2.0 as it is known, is being built with technologies from PMC-Sierra that our Company is uniquely qualified to provide. The Next Generation Internet requires 10 times the bandwidth and storage capacities that we needed in the early part of this decade because of the new class of applications. What has changed in PMC's business, as a result, is that new cutting-edge technologies are needed again by the carriers and corporate enterprises as bandwidth and storage capacity have been consumed from the first wave of capital investment. Importantly, the new infrastructure is largely being funded by cash flow from the operations of these carriers and corporate entities. This is in stark contrast to the "build it and they will come" days of the late '90s. This is encouraging because the billions in investment being committed should be sustainable this time. PMC has been investing in the right technologies and products, as well as the right geographic regions of the world during the past seven years to position ourselves to address the opportunities to enable the Next Generation Internet. As a result, we believe PMC-Sierra is entering the most exciting time of its history.

In 2001, we realized that something profound had shifted in our customers' markets. We knew we had to shift focus to a more global customer set in an aggressive manner. PMC now ships over 60% of our products to Asia. We have recently opened design and field application centers in Shanghai, China and Bangalore, India. In recognition of our customer service efforts, PMC-Sierra was proud to receive two awards in 2007: (i) an "Excellent Supplier Award" from Huawei Technologies, China's leading telecom OEM, for the second consecutive year; and (ii) an "Excellent Partner Award" from Hitachi, a leading global electronics company. These awards come from two customers we barely sold anything to at the end of the tech bubble in 2000. Now they are both in our top five accounts.

In 2007, we saw two key developments that confirmed our market focus and technology investments were on target: 1) Fiber-To-The-Home (FTTH) became the primary technology for NG broadband access in China as well as Japan and Korea, and 2) several Tier One OEMs announced SAS/SATA Enterprise Storage system product introductions. This bodes well for PMC-Sierra because PMC-Sierra, as the market leader in Fibre Channel and SAS/SATA disk interconnect products, experienced strong product synergies with the Fibre Channel controllers that were acquired from the Avago storage business. In 2007, we introduced new 8Gbit/s Fibre Channel controller devices, which greatly improve data access times and enable a new class of networked storage systems. These products doubled the performance of existing solutions and are backward compatible with our industry-leading 4Gbit/s Fibre Channel products - - allowing our customers to preserve their significant software investments. We also introduced our first 6Gbit/s SAS/SATA controller devices to enable high performance, scalable storage system designs for true enterprise-class SAS/SATA disk arrays. We leveraged our strengths in

*Over...*

high performance embedded processor design, storage protocol knowledge and multi-gigabit serial technology. PMC also made a strategic move into the Server-attached storage market with a new 6Gbit/s RAID-on-Chip device that's been designed into Hewlett-Packard's next generation Proliant server platforms. These new product introductions position PMC-Sierra for market leadership, as well as double our Serviceable Market in enterprise storage, thereby facilitating growth.

In FTTH, PMC-Sierra is the established market leader in EPON and we announced an FTTH industry milestone with over four million PMC-based FTTH Optical Network Units (ONUs) in field deployment. Our largest end market for EPON solutions is Japan, and according to the Japanese Ministry of Internal Affairs and Communications, gigabit FTTH deployment is outpacing DSL broadband access in that country by over 3-to-1. In Korea, PMC-Sierra and DASAN Networks are working with Korea Telecom, and the Korean government is expected to complete its regulatory policy for video content in 2008, which will result in resumption of EPON FTTH deployments in that country in the second half of the year. In China, our EPON products are starting to be deployed as EPON has emerged as the chosen standard in that market due to its stability and proven performance. China Telecom has decided to bypass VDSL and go straight to FTTH for their NG broadband access deployments. In North America and Europe, we are engaged with several of the key equipment manufacturers for GPON solutions, and we introduced our first GPON ONT reference design offering line-rate processing and proven interoperability with most existing GPON OLT designs. We expect to introduce more leadership GPON products in 2008 resulting in design wins to address the North American and European markets.

An exciting part of the changing landscape is the increasing ubiquity of broadband wireless access. More and more, we are accessing our corporate and personal IT resources wirelessly. To address this opportunity, PMC-Sierra entered the emerging broadband wireless access market with a highly integrated WiMAX Radio Frequency IC. Our WiZIRD family of WiMAX solutions offers a multi-band capability that covers all licensed worldwide radio spectra. We have already secured several key Asian design wins based on our reference design, so we are very pleased with the early progress of this program.

In summary, 2007 was a year of achievements and progress for PMC-Sierra. The markets for our products and technologies are improving as more investment has been committed to by carriers and corporate enterprises to enhance their networks and to capture more revenues for themselves. The original promise of the Internet is just beginning to be realized. The any data, anywhere, anytime vision is upon us. What innovators will do with this cheap mobile access to the Web is unpredictable and exciting. From the coming U.S. Presidential elections, to the discovery of new musical talent, to the dating scene, our lives have been impacted by the Internet. And, as has always been the case, it is PMC-Sierra's mission to help build the Internet (or, the Next Generation Internet in this case). As a result of these trends, as well as the financial and strategic progress in repositioning the Company, despite the recent stock market turbulence caused by the credit markets, we believe PMC-Sierra is in a uniquely advantageous position to inordinately benefit from the coming technology renaissance resulting in profitable growth in the coming years.

For all of these accomplishments, I would like to thank our employees, customers, and investors who all contributed to making this progress a reality.

Sincerely,



Robert L. "Bob" Bailey  
Chairman & CEO