



## Letter To The Stockholders

Enabling connectivity. Empowering people.

March 13, 2009

To PMC-Sierra Stockholders:

In 2008, our Company had a very strong year in terms of financial and operating performance. Our revenue grew 17% to \$525 million and our operating income increased 81% to \$117 million for the year (as measured by non-GAAP earnings before other income and taxes<sup>1</sup>). We strengthened our balance sheet significantly in 2008 and our cash position, net of convertible notes outstanding, increased \$99 million to \$239 million at year end. Our design wins with leading Internet infrastructure partners increased in 2008, especially in the areas of Enterprise Storage and Metro Optical Networks. I believe that our strategic customer engagements, product execution, design win success and the work the Company has done over the last several years to improve our business model have placed us in a solid position to weather the current economic storm. 2008 has been an excellent year of progress toward achieving our mission *to be the premier Internet infrastructure semiconductor solution provider.*

In terms of our business, PMC-Sierra sells semiconductor solutions into three general markets: Enterprise Networking; Wide Area Network (WAN) Infrastructure; and Access Networks. The products and solutions that we sell into Enterprise Networking are mostly driven by the capital spending of corporate and government IT departments. The major end markets in this area of our business are Enterprise Storage and Laser Printers. In Enterprise Storage, we have established a strong leadership position in Fibre Channel storage area network interfaces and brought the industry's first 8G Fibre Channel solutions to market. On the disk side, we made tremendous progress towards establishing market leadership by introducing 6G SAS/SATA controllers well in advance of any competitive solution. We have also extended this technology to deliver and earn our first major design win with HP -- the world leader in server shipments -- in the server RAID-on-Chip arena. This new area is an excellent extension of our current technology and will help us continue to grow this business over the next few years. With new product cycles coming on-stream in 2009 and 2010, we believe that Enterprise Storage could be our largest business in 2009.

PMC also sells semiconductor solutions into the WAN Infrastructure and Access Networks markets, which are largely driven by the capital spending of service providers in the communications equipment industry. With continued growth in Internet usage and digital consumer devices, the demand for bandwidth and more efficient networks is increasing each year. New applications such as third generation (3G) wireless services, video-on-demand, and Internet Protocol television (IPTV) are driving service providers to upgrade their WAN and Access Networks. As a result, our customers need to introduce new equipment that cost-effectively manages the increasing level of traffic and service options. We're providing the innovative silicon solutions that our customers require to develop next-generation WAN equipment for deployment by carriers worldwide.

Over...



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With regard to our Access Networks business, we are experiencing continued growth in China where they are expanding their second and third generation wireless networks. Earlier this year, the Chinese government consolidated six carriers into three larger ones, and each of them has been awarded a 3G license for domestic wireless operation. And they are now moving forward rapidly on their plans to deploy their own networks as they compete for customers. Our wireless devices are mostly in the backhaul portion of the network where traffic is aggregated and transported back to the carriers' central office, as well as in the Radio Access Network portion of the wireless network infrastructure.

PMC is also investing in the next-generation Broadband Access technology called Fiber To The Home (FTTH). PMC-Sierra is the leader in Ethernet Passive Optical Networking (EPON) which provides high bandwidth connectivity to a home or multi-dwelling unit without sensitivity to distance between the subscriber and the carrier's central office. EPON is widely deployed by carriers in Japan and is now emerging in markets such as China and Korea. Last year, we introduced the next-generation of EPON solutions — the industry's first 10G EPON reference designs which provide a smooth upgrade path from 1G EPON. We also introduced a complete product line for Gigabit PON (GPON), which is the other FTTH technology of choice focused primarily in Europe and North America.

In summary, 2008 was a year of new product introductions, customer design wins, and financial achievements for PMC. I believe the Company is well-positioned to benefit from growth in the three major end markets that we serve. We will continue to maintain our focus on innovation, cost control and profitability. And for all of the achievements this past year, I would like to thank our customers, employees, partners, and investors who contributed to making 2008 a successful year.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Lang".

Greg Lang  
President and CEO

(\* For reconciliation for this and other GAAP and non-GAAP financial measures for 2008 please refer to the Company's Fourth Quarter 2008 earnings release dated January 29th, 2009)