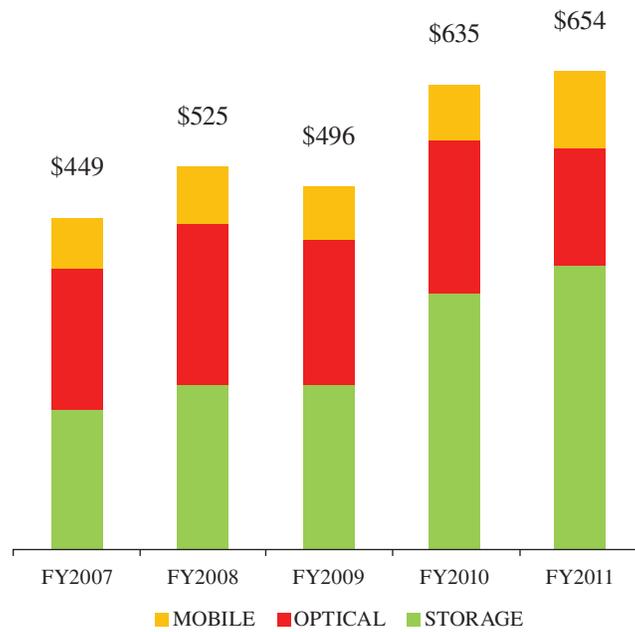


## PMC-Sierra

### Annual Revenue and Revenue Mix Dollars in Millions



**Our Mission:**  
To be the premier internet infrastructure  
semiconductor solution provider



March 23, 2012

Dear PMC-Sierra Stockholders:

On behalf of our Board of Directors and my fellow 1,500 employees, thank you for your investment in PMC®.

In 2011, we reported annual revenues of \$654 million for year-over-year growth of 3 percent, outpacing the worldwide semiconductor industry, despite challenging macro conditions. We generated \$143 million in non-GAAP<sup>(1)</sup> operating income in 2011 representing an operating margin of 22 percent. Our non-GAAP diluted earnings per share (EPS) of \$0.60 decreased 17 percent year-over-year due to a full year of acquisition-related R&D spending and a slowdown in carrier spending in the second half of 2011. PMC's balance sheet remains strong with net cash of \$445 million at the end of 2011, and we remain focused on all key operating metrics. Over the past five years, I am pleased to report that the Company's revenues have increased 46 percent, outpacing the industry by over 2.5 times and our non-GAAP diluted EPS more than doubled.

In 2011, PMC completed a \$40 million share repurchase program and the Board of Directors authorized another \$40 million share repurchase program for fiscal year 2012. We recently announced the Board authorized an additional \$275 million share repurchase program emphasizing our ongoing commitment to enhancing shareholder value, as well as our confidence in PMC's long-term financial outlook and growth opportunities.

To further enhance our corporate governance, the Company appointed Mr. Jonathan J. Judge as non-executive chairman of the Board. In addition, Mr. Michael Klayko and Dr. Richard Nottenburg were appointed to PMC's Board of Directors. With the addition of two new independent members, the Board is gaining access to new perspectives and extensive experience in communications and storage networks which are extremely valuable to PMC.

### **Key Business Highlights**

In 2011, we refocused our technology strategy around the following three major market segments: storage, optical and mobile networks. Our alignment around these market segments is reflected in our corporate reporting, product portfolio, company website and redesigned logo. We believe that these market segments best reflect the significant opportunities ahead of us.

In 2011, our *storage business* represented 60 percent of total revenues and the third quarter was our biggest quarter ever in storage revenues. In addition, we achieved a key milestone by shipping more than 115 million 6Gb/s SAS system ports, demonstrating PMC's leadership in the SAS-2 build-out.

To extend our leadership in enterprise storage, we continued to set the bar for performance with the Tachyon® SPCv SAS protocol controllers, which double performance and port density of existing solutions. To enable secure cloud storage, we also announced a new family of Tachyon® 6Gb/s SAS controller-based encryption solutions. The SPCve controllers provide a central, scalable and cost-effective means to secure and manage stored data. Our controller-based encryption architecture is agnostic, allowing OEMs and cloud providers to mix and match HDDs and SSDs, and to encrypt their infrastructure.

To accelerate data center and cloud computing services, our channel storage business introduced the Adaptec® Series 6Q RAID controller with maxCache 2.0 SSD caching and the industry's first true hardware 6Gb/s SATA/SAS RAID controllers with on-board DRAM cache for the entry-level market segment.

In our *optical business*, we are enabling the acceleration of next generation ultra-broadband services. We delivered the industry's most advanced, integrated and highest performing forward error correction (FEC) technology for 40G and 100G OTN deployments, demonstrating our innovative approach to achieving greater optical reach. PMC's flexible OTN chipset is enabling carriers worldwide to transition to scalable, optical networks.

We are the worldwide leader in passive optical networks (PON) SoCs and one of the only suppliers with end-to-end solutions for all fiber access protocols. Once again, we lead the industry with the introduction of the first symmetric 10G EPON OLT devices that incorporate industry-leading traffic management, packet processing, and on-chip redundancy. Continuing our track record for industry-leading integration and innovation, we announced the industry's first EPON ONU devices with integrated optical analog front end technology that significantly reduce the cost and power of equipment optimized for the fiber-to-the-home (FTTH) market segment.

In our *mobile business*, we continue to deliver innovative solutions for next-generation mobile backhaul and radio base stations. We released to production our leading WinPath3™ network processors and we have achieved over 100 design wins with the equipment vendors who supply all of the major carriers. Building upon our leadership in network processors, we announced PMC's Universal Front End 4 (UFE4) device for mobile infrastructure. Consequently, our UFE4 silicon was honored for outstanding innovation and received the NGN Leadership Award in the network technology category presented by *NGN Magazine* and the WinPath3™ was shortlisted for the LTE North America Award. Finally, November 2011 marked the one-year anniversary of the Wintegra team joining PMC.

### **Driving Future Growth: Our Opportunity**

The network matters—today, more than ever. With the rapid proliferation of video and increasingly more capable mobile devices like smartphones and tablets, packet-based networks and bandwidth requirements are increasing at a rapid pace. In a 2011 study Cisco Systems, Inc. forecasts that worldwide mobile data traffic will increase 26-fold over the next four years, reaching an annual run rate of 75 exabytes by 2015. This demand is driving carriers and enterprises to upgrade and improve their network infrastructure and storage management capabilities. Enterprises, governments, corporations, small and home offices are expanding their networks to better capture, store and access large quantities of data and video. That's why PMC is focused on delivering innovative solutions to transform the networks that move, connect and store data.

We have a huge market opportunity—and are uniquely positioned to capitalize on it. Altogether, our storage, optical and mobile serviceable available markets (SAM) are projected to grow from approximately \$1.8 billion today to \$3.6 billion in 2015. And we are moving quickly to take advantage of what we see as a unique window of time in the growth—and evolution—of the worldwide digital network transformation to build market share and to create value for our stockholders.

### **PMC's Unique Strengths**

We have a unique combination of strengths:

- Semiconductor innovator transforming storage, optical and mobile networks
- Recognized technology leadership in mixed-signal, software and systems integration
- Well-positioned to capitalize on major high-traffic growth trends
- Expanding addressable markets and market segment position
- Franchise player in key infrastructure segments
- Track record of strong financial performance

## Looking Ahead

Our mission is clear: to be the premier Internet infrastructure semiconductor solution provider. We have multiple and significant growth opportunities in the coming years with the proliferation of mobile devices, the explosion of digital content and applications, and accelerating demand for bandwidth and storage.

In summary, 2011 was a solid year for PMC in terms of financial performance, new product introductions and strengthening the Company's corporate governance. Looking to 2012 and beyond, PMC is uniquely positioned to capitalize on major industry growth trends to build share and create long-term shareholder value. I would like to thank all of our customers, employees, partners, and investors who have contributed to our success.

Sincerely,



Gregory S. Lang  
President and Chief Executive Officer

*(Note 1: For full reconciliation between GAAP and non-GAAP earnings, please refer to page 64 of the Company's 2012 Proxy Statement where a complete reconciliation of 2010 and 2011 is available. Also, this letter contains forward-looking statements which are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including but not limited to risks described in PMC-Sierra's SEC filings. PMC-Sierra undertakes no obligation to update any forward-looking statements.)*

*PMC® is the corporate brand of PMC-Sierra*