

Company Registration No. 3446594

PMC-Sierra Europe Limited

Annual Report and Financial Statements

31 December 2006

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PMC-Sierra Europe Limited

Annual report and financial statements 2006

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PMC-Sierra Europe Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006. This directors' report has been prepared in accordance with the special provisions relating to small companies which are members of an ineligible group under section 247A(1A) of the Companies Act 1985.

Activities

The company's principal activity is to support the sale of custom and other semiconductors.

Review of developments and future developments

The profit and loss account is set out on page 4 and the position of the company at the balance sheet date is presented on page 5. The company incurred a loss of £371,050 (2005 - loss of £245,170) after tax. The directors expect the company to be profitable in the future.

Dividends

The directors do not recommend the payment of a dividend (2005 - £nil).

Directors

The directors who served during the year were as follows:

R Bailey
J Sullivan
A Krock
S Barker

Independent auditors

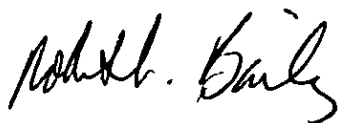
Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



R Bailey [name]
Secretary

PMC-Sierra Europe Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of PMC-Sierra Europe Limited

We have audited the financial statements of PMC Sierra Europe Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Crawley, United Kingdom

18 December 2007

PMC-Sierra Europe Limited

Profit and loss account Year ended 31 December 2006

	Note	2006 £	2005 (as restated - see note 1) £
Turnover: continuing operations	2	5,482,957	3,781,535
Administrative expenses - normal		(5,542,973)	(3,813,050)
- exceptional	4	(74,485)	(70,945)
		<u>(5,617,458)</u>	<u>(3,883,995)</u>
Operating loss on ordinary activities before taxation: continuing operations	4	(134,501)	(102,460)
Tax on loss on ordinary activities	5	(236,549)	(142,710)
Loss for the financial year		<u>(371,050)</u>	<u>(245,170)</u>
Retained deficit brought forward		<u>(493,481)</u>	<u>(248,311)</u>
Retained deficit carried forward		<u><u>(864,531)</u></u>	<u><u>(493,481)</u></u>

Statement of total recognised gains and losses Year ended 31 December 2006

	2006 £	2005 (as restated - see note 1) £
Loss for the financial year	<u>(371,050)</u>	<u>(245,170)</u>
Total recognised gains and losses relating to the year	<u>(371,050)</u>	<u><u>(245,170)</u></u>
Prior year adjustment (note 1)	<u>(462,698)</u>	
Total recognised gains and losses since the last annual report and financial statements	<u><u>(833,749)</u></u>	

PMC-Sierra Europe Limited

Balance sheet 31 December 2006

	Note	2006 £ (As restated - see note 1) £	2005 £
Fixed assets			
Tangible assets	7	<u>268,490</u>	<u>65,425</u>
Current assets			
Debtors	7	3,135,905	2,980,321
Cash at bank and in hand		<u>251,034</u>	<u>114,048</u>
		3,386,939	3,094,369
Creditors: amounts falling due within one year	9	<u>3,667,562</u>	<u>3,189,577</u>
Net current liabilities		<u>(280,623)</u>	<u>(95,208)</u>
Total assets less current liabilities		<u>(12,133)</u>	<u>(29,783)</u>
Capital and reserves			
Called up share capital	10	1,000	1,000
Additional paid-in capital		851,398	462,698
Profit and loss account		<u>(864,531)</u>	<u>(493,481)</u>
Total shareholders' deficit	11	<u>(12,133)</u>	<u>(29,783)</u>

These financial statements were approved by the Board of Directors on Dec 13, 2007

Signed on behalf of the Board of Directors



R BAILEY [name]
Director

PMC-Sierra Europe Limited

Notes to the accounts

Year ended 31 December 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below and have been applied consistently throughout the current and preceding financial year with the exception of FRS 20 'share based payments'.

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Prior year adjustment

FRS 20 'Share based Payments' became applicable to the company for the period commencing 1 January 2006. The comparative figures in the primary statements and notes have been restated to reflect the new policy. The effects of the change in policy was to decrease operating profit through a charge to administration expenses by £228,221 for 2005 and £234,477 for 2004, with a corresponding capital contribution to the additional paid capital reserve. The charge for 2006 and associated capital contribution is £388,700. FRS20 has not had an impact on the net assets of the company.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The estimated useful economic lives are as follows:

Leasehold improvements	Period of lease
Equipment	2-5 years
Fixtures and fittings	2-5 years

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences arising are dealt with in the profit and loss account.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension costs

The ultimate parent company, PMC-Sierra Inc, operates a defined contribution pension scheme for all qualified employees. The contribution by the company is charged to the profit and loss account as it falls due. Any difference between contributions paid and payable is recorded in the balance sheet as a prepayment or accrual.

PMC-Sierra Europe Limited

Notes to the accounts

Year ended 31 December 2006

1. Accounting policies (continued)

Share based payment

The company has applied the requirements of FRS 20, Share-Based Payment. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were invested as of 1 January 2005.

The company issues equity-settled share-based payments to certain employees. Equity-settled Share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expenses on a straight line basis over the vesting period. The fair value of the Company's stock option awards granted to employees during the year ended 31 December 2006, was estimated using a lattice-binominal valuation model. The biannual model considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

Related party transactions

The company has taken advantage of the exemption under FRS 8 not to disclose transactions with other group companies.

Cash flow statement

The company has taken advantage of the exemption available under FRS 1 not to prepare a cash flow statement on the basis that group financial statements are publicly available.

2. Turnover

Turnover represents management charges to the parent company, PMC-Sierra International Inc, net of sales related taxes.

The turnover, which arises in the United Kingdom, is attributable to the company's principal activity.

3. Information regarding directors and employees

No director received any emoluments in the two years ended 31 December 2006 and 2005.

	2006 No.	2005 No.
Average number of persons employed		
Marketing and distribution	57	28
Administration	1	1
	<u>58</u>	<u>29</u>

PMC-Sierra Europe Limited

Notes to the accounts

Year ended 31 December 2006

3. Information regarding directors and employees (continued)

	2006	2005
		(as restated
		- see note 1)
	£	£
Staff costs during the year		
Wages and salaries	1,983,133	1,203,493
Social security costs	107,289	96,907
Pension costs	70,514	31,098
	<u>2,160,936</u>	<u>1,331,495</u>

4. Operating loss

	2006	2005
	£	£
Operating loss is after charging:		
Depreciation		
Owned assets	64,784	21,136
Rentals under operating leases		
Other operating leases	341,641	237,577
Fees payable to the company's auditors for the audit of the company's annual accounts	3,000	3,000
Fees payable to the company's auditors for other services	13,706	14,978
Exceptional administrative expense - severance pay	<u>74,485</u>	<u>70,945</u>

PMC-Sierra Europe Limited

Notes to the accounts

Year ended 31 December 2006

5. Tax on loss on ordinary activities

(a) Tax on loss on ordinary activities

	2006 £	2005 £
Current tax		
United Kingdom corporation tax at 30% (2005 - 30%)		
Adjustment in respect of prior years	-	(9,359)
Foreign tax for the year	213,137	153,270
Total current tax	213,137	143,911
Deferred tax		
Timing differences, origination and reversal	11,304	(2,244)
Adjustment in respect of prior years	12,108	1,043
	23,412	(1,201)
Tax on loss on ordinary activities	236,549	142,710

(b) Factors affecting current tax charge for the year

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation

	2006 £	2005 £
Loss on ordinary activities before tax	(134,501)	125,761
Tax on loss on ordinary activities at standard rate	(40,350)	37,728
Factors affecting charge for the year		
Expenses not deductible for tax / (book) purposes	63,617	3,524
Capital allowances in (excess) deficit of depreciation	(6,214)	(4,516)
Movement in short term timing differences	(5,090)	6,760
(Utilisation) / Non-utilisation of tax losses	(11,962)	2,485
Foreign tax unrelieved	213,136	107,288
Prior period adjustments	-	(9,359)
Total actual amount of current tax	213,137	143,911

A deferred tax asset has been recognised at the year end for an amount of £1,003 (2005 - £23,415) and is shown in debtors in note 7. The deferred tax asset relates to £1,225 (2005 - £4,989) capital allowances in excess of depreciation, £2,228 (2005 - £19,426) of short term timing differences and £nil tax losses (2005 - £nil).

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Notes to the accounts

Year ended 31 December 2006

6 Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees. Share option awards are granted with an exercise price equal to the closing market price of the Company's common stock at the grant date. The options generally expire within five to ten years and vest over four years.

Details of share options outstanding during the year are as follows:

	Number of share options	2006 Weighted average exercise price £	Number of share options	2005 Weighted average exercise price £
Outstanding - beginning of period	282,913	5.68	230,548	6.94
Granted during the period	160,075	5.46	158,065	4.22
Forfeited during the period	(18,189)	4.92	(43,918)	5.51
Exercised during the period	(14,674)	3.06	(8,645)	3.02
Expired during the period	(33,236)	6.91	(8,645)	10.82
Outstanding - end of the period	376,889	5.62	292,413	6.15
Exercisable - end of period	144,502	5.99	140,190	7.26

The weighted average share price at the date of exercise for share options exercised during the period was \$3.43. The options outstanding at 31 December 2006 had a weighted average exercise price of \$9.55 and a weighted average remaining contractual life of 7.27 years. In 2006, options were granted on 15 January, 18 January, 23 January, 21 February, 7 March, 9 March, 9 April, 11 April, 24 April, 3 May, 9 May, 10 May, 1 June, 6 June, 7 June, 11 July, 8 August, 30 August, 5 September, 7 September, 10 October, 7 November, 28 November, 5 December, 7 December. The aggregate of the estimated fair values of the options granted on those dates is £86,252 million. In 2005, options were granted on 8 February, 8 April, 11 May, 25 May, 7 June, 8 June, 5 July, 18 July, 23 August, 1 September, 26 September, 18 October, 1 November, 21 November, 28 November, 19 December. The aggregate of the estimated fair values of the options granted on those dates is £57,257 million.

The fair values of the Group's stock option and ESPP awards were estimated using the following weighted average assumptions:

	2006	2005
Expected life (years)	3.9	3.8
Expected volatility	58%	60%
Risk free interest rate	4.8%	3.9%

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Notes to the accounts

Year ended 31 December 2006

6. Share-based payments (continued)

The Group's estimates of expected volatilities are based on a weighted historical and market-based implied volatility. The Group uses historical data to estimate option exercises and employee terminations within the valuation model, separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes. The expected term of options granted is derived from the output of stock option valuation model and represents the period of time that granted options are expected to be outstanding. The risk-free rate for periods within the contractual life of the stock options is based on the US Treasury yield curve in effect at the time of the grant.

The Group recognised total expenses of £388,700 and £228,221 related to equity-settled share-based payment transactions in 2006 and 2005, respectively.

7. Tangible fixed assets

	Leasehold Improve- ments £	Equipment £	Fixtures and fittings £	Total £
Cost				
At 1 January 2006	86,061	117,523	35,968	239,552
Additions in year	127,009	132,138	8,702	267,849
At 31 December 2006	213,070	249,661	44,670	507,401
Accumulated depreciation				
At 1 January 2006	49,750	93,653	30,724	174,127
Charge in year	23,116	38,489	3,179	64,784
At 31 December 2006	72,866	132,142	33,903	238,911
Net book value				
At 31 December 2006	140,204	117,519	10,767	268,490
At 31 December 2005	36,311	23,870	5,244	65,425

8. Debtors

	2006 £	2005 £
Amounts due from group undertakings	2,946,460	2,758,030
Prepayments and accrued income	168,225	177,325
Loan receivable	20,217	20,551
Deferred tax	1,003	24,415
	<u>3,135,905</u>	<u>2,980,321</u>

All amounts are due within one year

PMC-Sierra Europe Limited

Notes to the accounts Year ended 31 December 2006

9. Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	104,047	73,101
Amounts due to group undertakings	2,846,434	2,843,317
Corporation tax	110,893	100,365
Accruals and deferred income	606,188	172,794
	<u>3,667,562</u>	<u>3,189,577</u>

10. Called up share capital

	2006 £	2005 £
Authorised		
1,000 (2005 – 1,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid		
1,000 (2005 – 1,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

11. Reserves

	Additional paid in capital £	Profit and loss account – deficit £	2006 Total £	2005 Total £
At 1 January (as previously reported)	-	(30,783)	(30,783)	(13,834)
Prior year adjustment (note 1) – option charge	-	(462,698)	(462,698)	(234,477)
Prior year adjustment (note 1) – capital contribution	462,698	-	462,698	234,477
	<u>462,698</u>	<u>(493,481)</u>	<u>(30,783)</u>	<u>(13,834)</u>
At 1 January (as restated)				
Loss for the financial year	-	(371,050)	(371,050)	(245,170)
Capital contributions	388,700	-	388,700	228,221
At 31 December	<u>851,398</u>	<u>(864,531)</u>	<u>(13,133)</u>	<u>(30,783)</u>

PMC-Sierra Europe Limited

Notes to the accounts Year ended 31 December 2006

12. Reconciliation of movements in shareholders' funds

	2006 £	(As restated in Note 1) 2005 £
Opening shareholders' deficit	(29,783)	(12,834)
Loss for the financial year	(348,906)	(245,190)
Capital contribution	388,700	228,221
Closing shareholders' deficit	<u>10,011</u>	<u>(29,783)</u>

13. Financial commitments

Operating lease commitments

At 31 December 2006 the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings		Other	
	2006 £	2005 £	2006 £	2005 £
Leases which expire:				
Within one year	26,332	51,293	-	1,964
Within two to five years	29,090	130,868	14,321	29,825
	<u>55,422</u>	<u>182,161</u>	<u>14,321</u>	<u>31,789</u>

14. Ultimate parent company

The immediate parent company is PMC-Sierra International Inc, a company incorporated in Barbados. The parent company does not prepare consolidated financial statements.

The ultimate parent company and controlling party is PMC-Sierra Inc, a company incorporated in the State of California, USA.

Copies of the group financial statements are available from Suite 100, 2700 Production Way, Burnaby, B C, Canada, V5A 4X1.