



To Ikanos Stockholders:

In the face of a challenging economy, Ikanos held its own in 2008. We maintained our revenue while the overall semiconductor industry saw significant declines. We expanded our business in key geographies and broadened the adoption of our most advanced products. We improved our execution, reduced expenses and increased margins. And we explored strategic alternatives to help better position the company, and maximize value for our stockholders and employees.

In fiscal 2008, Ikanos delivered revenue of \$107 million, equivalent to that of fiscal 2007. As we reported in past earnings releases, we also increased gross margins and reduced operating expenses. In particular, our non-GAAP operating expenses were lowered to \$55.2 million, an \$8.3 million decline when compared to 2007. This reduction, and margin improvement, allowed us to improve our non-GAAP net loss per share for the year to \$0.10 compared to a net loss per share of \$0.42 in 2007.

Regional and Product Strength

Ikanos has historically been strong in the Asian market in countries like Japan, and our business in that country remained steady in fiscal 2008 accounting for 48 percent of revenue. Our revenue in Europe increased more than 20 percent in fiscal 2008 and accounted for 33 percent of our business. This is the result of continued shipments into major European service providers including Belgacom, France Telecom, Swisscom and others.

Annual revenue from our gateway products grew by about 20 percent in fiscal 2008 and accounted for 51 percent of our business compared to 42 percent in fiscal 2007. We gained traction with our Fusiv[®] Vx180 product. We won a tender offer from Chungwha Telecom with this product and also made significant progress with other major service providers in Europe and Asia. In addition, our Fusiv Vx160 continued to win service provider qualifications, and remained at the heart of the largest European IPTV deployment.

Improved Execution and Expense Control

During fiscal 2008, we continued to refine our execution and reduce costs. We conducted a thorough assessment of the organization and were able to implement more efficient development and test procedures. We lowered spending on consultants, software development tools, and tape-out related activities. We also eliminated some redundancy and reduced headcount, all without compromising our ability to deliver leading technology and support to our customers.

Strategic Activities

In February 2008, Ikanos completed the purchase the DSL technology and assets from Centillum Communications, Inc. This transaction added products, people and intellectual property – including nearly 60 patents and applications – to the company. We continued to explore other strategic activities during the year to further enhance Ikanos' leadership position in the market and deliver greater stockholder value.

We believe our efforts in 2008 position Ikanos well for 2009. We will continue to focus on achieving our vision of providing the leading semiconductor and software products for the universal delivery of new generations of broadband services that transform the way we work, live and play.

Thank you for your continued support.

A handwritten signature in black ink, appearing to read "Michael Gullett".

Michael Gullett
President and CEO

For a discussion of risks and uncertainties, which could cause actual results to differ from those contained in these forward-looking statements, see the section entitled "Risk Factors" in Ikanos' Annual Report on Form 10-K.

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