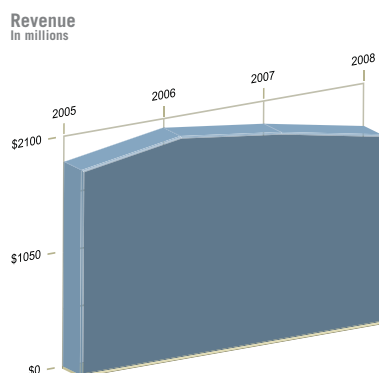


TELLABS FINANCIAL HIGHLIGHTS

Tellabs fiscal years ended January 2, 2009, and December 28, 2007.

In millions, except per-share and employee data	2008	2007	Change
Revenue	\$ 1,729	\$ 1,913	-10%
Gross profit	\$ 660	\$ 674	-2%
Operating (loss) earnings	\$ (970)	\$ 27	N/M
(Loss) earnings before income tax	\$ (953)	\$ 70	N/M
Net (loss) earnings	\$ (930)	\$ 65	N/M
Net (loss) earnings per share	\$ (2.32)	\$ 0.15	N/M
Total cash, cash equivalents and marketable securities	\$ 1,152	\$ 1,219	-5%
Total assets	\$ 2,508	\$ 3,747	-33%
Total liabilities	\$ 662	\$ 833	-21%
Stockholders' equity	\$ 1,846	\$ 2,913	-37%
Net cash provided by operating activities	\$ 131	\$ 133	-2%
Working capital	\$ 1,395	\$ 1,439	-3%
Research and development expense	\$ 305	\$ 343	-11%
Return on average stockholders' equity	-39.1%	2.2%	N/M
Weighted average shares outstanding	400	441	-9%
Number of shares outstanding at year-end	396	419	-5%
Number of employees	3,228	3,716	-13%



More than one-third of Tellabs' 2008 revenue came from growth products.

To help our customers succeed, we focus on the innovations ahead.

Dear Stockholders, Customers, Employees and Friends,

Tellabs moved forward during challenging times in 2008, my first year as CEO.

Like you, we see the global economy falling fast. Recession and financial turmoil will continue to shake the global economy and our industry for the foreseeable future. In response, our customers are curtailing capital spending. We have to prepare for this scenario to stay ahead of whatever comes.

Our 2008 revenue fell 10% to \$1.7 billion. Yet our actions increased gross profit margins.



Robert W. Pullen, Chief Executive Officer and President

Tough times demand decisions, so we:

- Emphasized markets that are growing faster than customers' overall capital spending, such as mobile backhaul, optical networking and business services.
- Refocused our research and development (R&D) resources on growth products, including optical networking and Carrier Ethernet/Internet Protocol (IP).
- Stopped developing the Tellabs® 8865 fiber access system since it was highly unlikely to achieve profitability.
- Cut costs by \$100 million with a goal of improving profitability. But to do so, unfortunately, we had to reduce our workforce. We expect 2009 operating expenses to run lower than in 2008.
- Strengthened the Tellabs leadership team by adding technology, sales and marketing expertise (see page 62).
- Judiciously preserved cash to keep our balance sheet solid and avoid debt while we continued to repurchase shares.

As announced in October, Tellabs recorded a non-cash goodwill impairment charge of \$988 million (see page 41, Note 4, Goodwill and Intangible Assets). The result was a 2008 loss of \$930 million or \$2.32 per share.

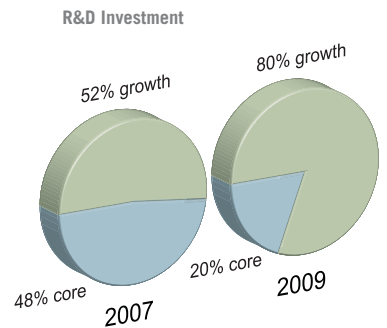
Our balance sheet remains rock-solid. We hold \$1.15 billion in cash, cash equivalents and marketable securities, substantially all in highly liquid investments. We have zero debt. Despite the economic downturn, we're confident that we have a solid financial foundation on which to build our future.

Tough times present an opportunity to pull ahead. We can't cost-cut our way to success. And we can't change the macroeconomic issues beyond our control. So we have to focus on what we can control. It takes hard work, thoughtful actions and some sacrifices.

The job ahead, first, is to make sure that we successfully navigate through the global economic tsunami. Second, we want to emerge from these challenging times even stronger. I am determined that we can and will do both.

The way forward builds on our core strength: innovating to help our customers succeed. In 2008 we invested approximately 18% of revenue, or more than \$300 million, in R&D. Today more than 1,300 Tellabs engineers work on network and service innovations around the world. Customers are responding positively. In fact, 41 of the world's top 50 telecom service providers have chosen Tellabs solutions.

Our customers face myriad challenges right now. Although household spending on telecom has flattened and landlines are declining, healthy demand continues for mobile services, higher-speed Internet and video. Many service providers need to upgrade networks even though revenues are flat. As service providers refine their business models to overcome this challenge, Tellabs helps them generate new revenue, reduce expenses and improve profitability.



About 80% of our 2009 R&D investment is focused on growth products.

To move forward, we are implementing new strategies:

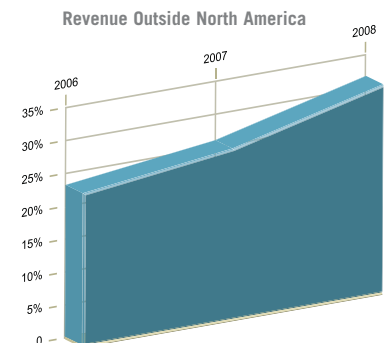
1. Focus our investments in growth products. Going forward, we are concentrating on growth products where we have a competitive lead — the Tellabs® 6000 and 7000 optical networking series, and the Tellabs® 7000 and 8000 Carrier Ethernet and IP series. In 2009, we plan to direct 80% of our R&D resources toward our growth products. We also are investing in Tellabs® professional services. Growth products and services generated more than one-third of our 2008 revenue.

In 2008, we launched the new Tellabs® 8605 and 8607 access switches and the new Tellabs® 6335 switch node. We announced the future Tellabs® 7300 Ethernet series, which we plan to ship in 2009. Our core products, the Tellabs® 1000, 3000, 5000 and 8100 series, and deployment services continue to generate revenue and profits we need to pursue our strategies.

2. Innovate in growth markets. Service providers need to spend in areas that Tellabs solutions address:

- As mobile Internet and video grow, Tellabs® Mobile Backhaul Solutions reduce operating expenses and smooth the transition to 3G and 4G. So far, 96 customers, including BT, Vodafone and T-Mobile Hungary, have chosen our newest solution.
- As bandwidth demand grows in metro networks, Tellabs® Optical Networking Solutions handle growth and reduce expenses. For instance, Verizon delivers video and high-speed Internet services through Tellabs optical networking.
- As enterprises seek multimedia services with the highest availability and reliability, Tellabs® Business Services Solutions enable service providers to deliver. Fortune 500 companies depend on Tellabs solutions for global connectivity.

Tellabs is a global company, doing business in more than 90 countries. Although most of our revenue historically has come from North America, almost 80% of 2009 telecom capital spending is expected to be elsewhere. Now, we're optimizing our global sales and service coverage to increase resources outside North America. Nearly one-third of our revenue comes from outside North America.



Nearly one-third of overall revenue now comes from outside North America.

3. Pursue flawless execution. A strategy is only as good as its execution. Our 2009 goals are to increase revenue from growth products, enhance gross profit margins, reduce expenses and improve customer satisfaction.

In our industry, the ongoing challenge is the law of gravity: selling prices fall over time, so our costs must fall even faster. We're taking a long view on costs by:

- Increasing R&D and supply chain work in lower-cost geographies that offer a well-educated workforce,
- Aggressively managing down product costs through value engineering,
- Reducing supplier complexity and simplifying with fewer components,
- Buying parts at lower costs, and
- Reducing product complexity and the number of inventory items we stock.

We are intensely focused on implementing our strategies. They will enable us to emerge as leaders when spending rebounds. During my 24 years at Tellabs, I've seen that when we focus, we win.

We're excited about what's ahead. Despite today's uncertain economic climate, we see clear signs of long-term opportunities. Telecom enriches lives as people use mobile phones, Internet and TV to stay connected, informed, educated and entertained. Telecom infrastructure is an engine of growth in emerging economies and an enabler of global commerce everywhere. Tellabs enriches lives by innovating the way the world connects.

Half the world's people now carry mobile phones. Mobile devices are evolving to put the power of a PC in your hand, opening new horizons for growth in telecom.

If you've used an iPhone™ or BlackBerry® to surf the Internet, you see what I mean. In emerging countries such as Indonesia, mobile devices are becoming the primary means of Internet access. But that's just the beginning. Today, with mobile devices you can pay for routine purchases in Scandinavia, start your car in Japan or obtain financial services without a bank in Africa and India.

What's ahead is even more fascinating, as we peer into university laboratories:

- At UCLA, a "cell phone" scans blood-cell samples and sends the results to a lab.
- At Purdue University, Bluetooth signals from mobile devices enable traffic monitoring.
- At the University of Washington, mobile devices calculate commuters' carbon footprints.

We see a growing role for telecom in reducing energy use in the years ahead. For example, Tellabs helped Brazilian railroad MRS Logistica centralize its management system to enable "smart logistics." Now MRS can put more trains on the tracks, increasing its revenue and profit potential. Compared with trucks, trains save energy and reduce carbon emissions. We are also working to make Tellabs products more energy-efficient, as one of our commitments to corporate social responsibility (see pages 16–19).

Huge energy savings can be realized. By the year 2020, telecom and information technologies could save \$800 billion a year in energy, according to the *GeSI Smart 2020* report.

We are fortunate that Tellabs is well-positioned in a global industry that remains vital. Yet, we clearly will face challenging times as we implement our strategies. I am confident that we have the right customers, the right people and the right solutions to succeed in the years ahead.

Sincerely,



Robert W. Pullen

Chief Executive Officer and President

March 3, 2009

Investors ask: What's ahead for Tellabs?

CEO Robert W. Pullen answers investors' frequently asked questions.

Q. Given the ongoing financial turmoil, what is your outlook?

A. Tellabs has made significant strides in areas we control, such as operating expenses.

What we can't control is service providers' capital spending, which many customers have stated they are curtailing. To address that concern, our strategy pinpoints addressable markets that are growing faster than overall capital spending — mobile backhaul, optical networking and business services. We're also adding resources outside North America, where almost 80% of capital spending occurs. Whatever revenue 2009 brings, our goals are to continue generating cash as well as operating income.

Q. How can your plans for growth in target markets succeed?

A. We have carefully selected markets where Tellabs has successfully innovated and where we have strong customer relationships. For instance, in mobile backhaul, we were first to market with a solution that offers customers a lower total cost of ownership as they migrate to 3G and 4G networks. We were able to anticipate our mobile customers' needs because we've been working with them for 20 years to increase their revenue and lower their expenses. Similarly, we offer differentiated solutions with quantifiable benefits in all our addressable markets. That said, we fully recognize that we need to keep innovating every day to stay ahead.

Q. What is your strategy for growing the services business?

A. We're focused on consulting services that help customers solve their business challenges. During 2008, we provided professional services for about 200 projects around the world, including network optimization, business case analysis and network performance enhancements. Although professional services are a small portion of our services business today, this revenue is growing substantially and profitably. Our professional services add value for customers and differentiate Tellabs from competitors.

Q. Tellabs has \$1.15 billion in cash and equivalents. How do you intend to use it? Are you planning a merger or acquisition, given some very attractive valuations?

A. Thanks to the prudent decisions by our board of directors and leadership, Tellabs is fortunate to have a solid balance sheet with cash, cash equivalents and marketable securities, and no debt. Customers prefer to do business with financially solid suppliers.

We intend to grow Tellabs organically. You might see us opportunistically purchase a key technology to gain a timing advantage, but we would pursue a merger or acquisition only if it clearly adds value for our customers and shareowners. That said, we have no imminent plans in this area.

Q. How will you continue to improve the gross profit margins of Tellabs products?

A. Our gross margins improved 3 percentage points to 38.2% during 2008. For instance, we've improved gross margins on the Tellabs® 7100 system over the past two years. We'll continue to work on gross margins by aggressively managing down product costs through value engineering, simplifying products with fewer components, sourcing parts at lower costs, reducing product complexity, using fewer suppliers and reducing our inventory items.

Q. Is your core business declining? What effect will tough times have on core products?

A. Since our core products (Tellabs® 1000, 3000, 5000 and 8100 series) are later in their life cycles, they'll likely decline over time. Our strategy is to pursue growth products and services in order to counterbalance this anticipated decline.

During tough times, different customers will take different approaches. As they tighten their belts, some will try to squeeze more out of existing assets, which is good for our core products. Others will accelerate the adoption of new technologies to reduce their capital and operating expenses, which is good for our growth products.

Q. You recently added Dr. Vikram Saksena, chief technology officer (CTO), Rizwan Khan, executive vice president of global marketing, and Roger J. Heinz, executive vice president of global sales and services, to Tellabs' executive team. Why?

A. To successfully innovate for customers and gain a competitive edge, we have to detect technology trends and market opportunities well before they unfold. That's why we need experienced top-level executives who specifically focus on technology and on the marketplace. These key roles look at our business from the outside in, taking a longer-term global view of how best to position Tellabs for the future. We plan to innovate, market and sell our way through the downturn, so we can emerge even stronger on the other side. Our new executives complement a strong existing leadership team. (See page 62 for biographies of the Tellabs leadership team.)