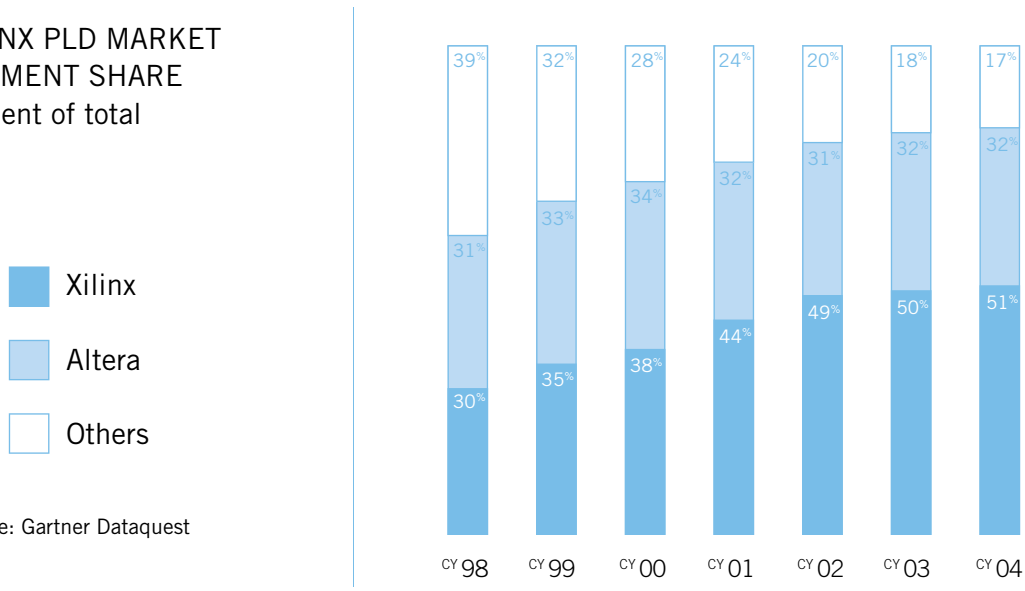
The Year in Review For the seventh consecutive year, Xilinx gained share in the Programmable Logic Device (PLD) segment of the Logic market. According to market research firm Gartner Dataquest, Xilinx's share of this segment was 51% in calendar 2004, up from 50% in calendar 2003 and up from 35% five years ago. Our increased share of the PLD segment underscores the expanding adoption of Xilinx PLDs throughout the digital electronic design community.

XILINX PLD MARKET SEGMENT SHARE
Percent of total



Source: Gartner Dataquest

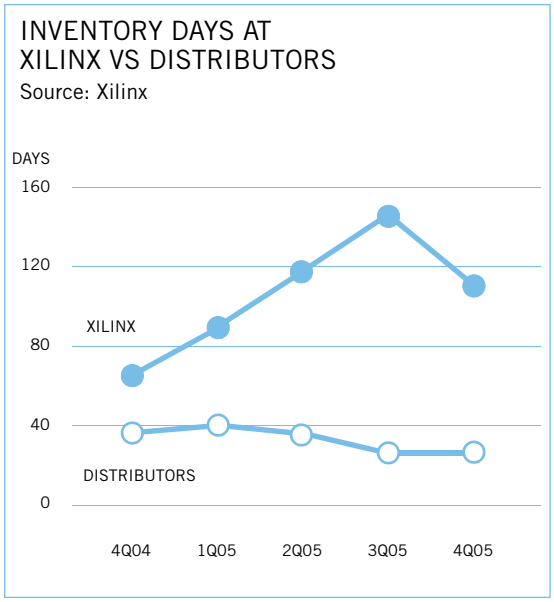
In fiscal 2005, Xilinx continued to enjoy one of the most stable and profitable business models in the semiconductor industry. Fiscal year revenues were $1.57 billion, up 13% from the prior year. Gross margin was 63.4%, up from 62.1% in fiscal 2004, benefiting from lower manufacturing costs. Operating income was $372 million and net income was $313 million, up 14% and 3% respectively from the prior fiscal year.

Cash and investments totaled $1.63 billion at the end of fiscal 2005. During the fiscal year, Xilinx generated $214 million in free cash flow, enabling us to transfer more value to our stockholders. We recently increased our stock repurchase program by up to an additional $350 million of common stock and we also announced that we are increasing our fiscal 2006 dividend payment as well, only a year after initiating the dividend program. In fiscal 2005, we repurchased 4.4 million shares of our common stock, up from 1.9 million shares in the prior year and we paid out $70 million in dividends.

Our financial stability and ability to generate cash flow are primary reasons that Standard & Poor's increased Xilinx's corporate credit rating to investment grade. Xilinx is one of a select few semiconductor companies and the only PLD company to have achieved this rating.

Despite these accomplishments, the year was plagued by an industry-wide semiconductor inventory correction that impacted Xilinx. Sales in the September and December quarters declined as our broad base of customers worked through inflated inventory levels accumulated during the first-half of calendar 2004. The fourth fiscal quarter marked a return to growth for Xilinx. Customer inventories were back in line and order rates were once again approximating actual consumption.

The imbalances in supply and demand during the year not only impacted our quarterly revenues but also our internal inventory position. At the beginning of calendar year 2004, customers were clamoring for parts, prompting us to increase our wafer starts in order to meet demand. At the same time, we experienced better than expected yields on 300mm technology. As customer inventories increased, order rates slowed, resulting in Xilinx inventory levels increasing to 146 days in the December quarter. Strong sales in the March quarter, coupled with solid inventory management, enabled us to exit the fiscal year with 111 days of inventory, well on our way to our corporate target of approximately 90 days.



There is little we can do to change the inherent cyclical nature of the semiconductor industry. However, I am encouraged to see greater supply/demand equilibrium in the overall supply chain as I write this letter to you. Furthermore, Gross Domestic Product (GDP), which is closely correlated with semiconductor industry growth, continues to grow at a moderate rate and the end markets we serve are reasonably healthy. These are all positive signs for continued future growth.

Solid Product Execution

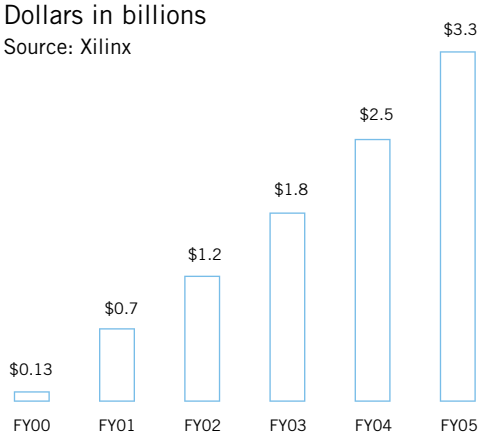
Our product portfolio has never been stronger, thanks to our new product execution which enabled us to introduce an unprecedented number of products during the year.

VIRTEX™ FPGAs

Since their introduction in 1998, Virtex Field Programmable Gate Arrays (FPGAs) have become the industry's most widely adopted FPGAs.

Sales from the Virtex line of FPGAs represented 53% of revenues in FY05, an increase of 14% from the prior fiscal year. In fiscal 2005, Xilinx began shipping its fourth generation family, Virtex-4™. This family leverages our 90nm process technology experience, resulting in one of the fastest product introductions in our Company's history. The Virtex-4 family consists of three domain-optimized platforms: LX, SX and FX. The LX platform targets the traditional programmable logic space, while the SX and FX families enable Xilinx to address incremental market opportunities in the areas of Digital Signal Processing (DSP), high speed serial connectivity and embedded processing. The SX and FX families are unique to Xilinx and there are no competing PLD products in the market today that offer the same level of functionality. Design-win activity for the Virtex-4 family is strong and consists of many emerging applications in areas such as biometrics, software defined radio, WiMAX and passive optical networks.

TOTAL VIRTEX FAMILY
CUMULATIVE REVENUES
Dollars in billions
Source: Xilinx

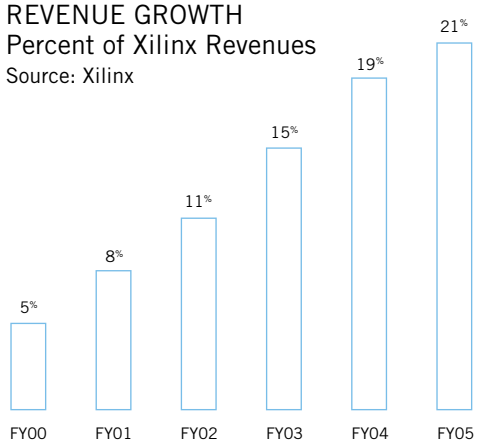


SINCE THEIR 1998 INTRODUCTION, THE COMPANY HAS SHIPPED OVER 24 MILLION VIRTEX DEVICES, GENERATING OVER $3 BILLION IN CUMULATIVE REVENUE.

SPARTAN™ FPGAs

As the Virtex product line continues to evolve and successfully address an increasing number of high-end applications, our Spartan family continues to be a driving force in providing affordable solutions for high volume applications. Since their debut in 1998, we have shipped more than 100 million Spartan devices to over 15,000 customers.

TOTAL SPARTAN FAMILY
REVENUE GROWTH
Percent of Xilinx Revenues
Source: Xilinx



SINCE INCEPTION, SPARTAN FPGAS HAVE GENERATED MORE THAN $1 BILLION IN CUMULATIVE REVENUE AND ACCOUNTED FOR 21% OF XILINX TOTAL REVENUES IN FISCAL 2005, UP FROM 5% FIVE YEARS AGO.

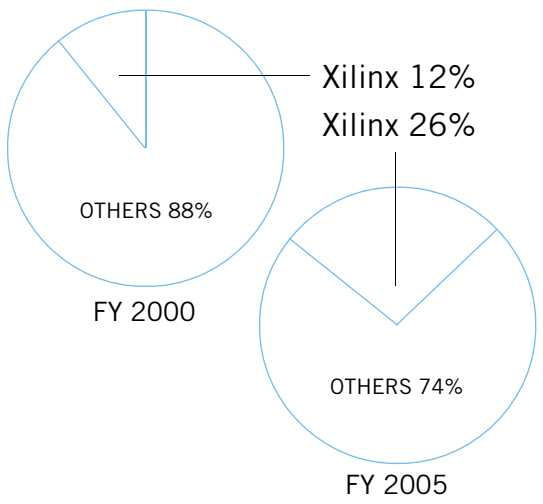
Spartan-3™ is the fifth generation Spartan product family and the world's first FPGA family shipping on 90nm process technology. Spartan-3 devices serve the high volume FPGA marketplace by offering higher density and richer features than competing products, but at the industry's lowest prices. Sales from this family gained significant traction during the year, propelling Xilinx into new applications such as gaming machines, driver assistance systems and high definition displays that were previously served solely by other types of Application Specific Integrated Circuits (ASICs) and Application Specific Standard Products (ASSPs). During the year, we complemented this successful family with the introduction of the Spartan-3E family which delivers more logic per dollar than any other programmable device, and also the Spartan-3L family which is optimized for low-power applications.

CPLDs

Although the majority of our revenue is derived from the sale of FPGAs, Complex Programmable Logic Devices (CPLDs) are an important and growing part of our product portfolio. Over the last few years, CPLD momentum has clearly

shifted in favor of Xilinx. CPLD sales increased 26% in fiscal 2005 and represented 9% of total revenues. During the year, we became the second largest supplier of CPLDs for the first time in history. We estimate that our annualized share in this market segment is currently 26%, up from 22% last year and up from 11% five years ago. Design activity remains strong and our CPLDs are becoming broadly adopted in high-volume, consumer applications such as MP3 players, cell phones and satellite radios.

CPLD MARKET SEGMENT BREAKDOWN:
FY 2000 vs FY 2005
Source: Xilinx Estimates



Our CPLD customer base has grown by more than 27% over the last five years, demonstrating the increased prevalence and importance of our products in high-growth, consumer applications.

INTELLECTUAL PROPERTY (IP) / SOFTWARE

Intellectual property and software continue to be integral to our success as a company. As PLDs become more complex and capable of greater functionality, IP plays an even more important role by offering customers more complete solutions. Xilinx recognizes this and is dedicated to developing a diverse array of IP offerings aimed specifically at providing our customers with greater ease of use and faster time to market. Xilinx has more than 55 third party core providers and more than 400 IP blocks in its portfolio, which include connectivity, DSP and processor IP.

We recently announced the shipment of Integrated Software Environment (ISE™) version 7.1i to our customers. ISE 7.1i incorporates unique elements of integration, design performance and ease of use for the industry's largest user base of over 200,000 designers. ISE integrates timing driven design compilation, logic optimization, accurate power analysis, hierarchical design, verification, and debug features. Well-integrated design tools enable high-performance systems designers to leverage the convergence of logic, DSP, embedded processing, and connectivity on a single programmable platform. Fast cycle times and ease of use are critical for designers of high-volume products who are embracing the time-to-market and flexibility benefits available only with programmable logic. Xilinx invests more in software than anyone else in the PLD industry to provide best-in-class design tools for both high-performance and high-volume applications.

Process Technology and Manufacturing

In the area of process technology, Xilinx maintains a healthy lead against the competition. Xilinx was the first PLD company to introduce products manufactured using 90nm process technology and we are currently shipping more than three times the number of 90nm devices as our nearest competitor. We believe that our early lead and experience on 90nm technology will benefit us in the development of 65nm technology.

During the year, Xilinx entered into a strategic foundry relationship with Toshiba to develop products manufactured using advanced processes. Toshiba has a long history of success in producing high-volume products and this agreement provides Xilinx with an additional stable source of advanced FPGA products. We believe that our relationship with Toshiba, as well as our continued commitment to long-term foundry partner United Microelectronics Corporation, will provide us with access to the industry's most advanced process technology and our customers with a more assured source of stable supply.

Year Ahead

In fiscal 2006, we will continue to develop technology and expertise that enables us to grow outside the traditional PLD/ASIC realm. Digital Signal Processing, embedded processing and connectivity represent key examples of technologies that span vast end markets and offer large and complementary market opportunities. We estimate that these combined technologies represent a market that is ten times larger than the programmable logic industry today.

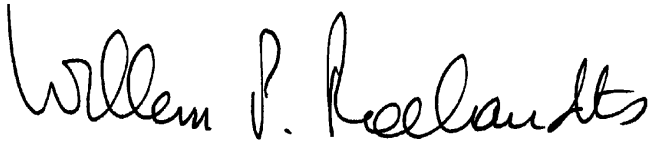
With the introduction of the Virtex-4 SX family, we now have an FPGA family specialized for the high-performance DSP market while retaining all of the benefits of reprogrammability. We are seeing strong customer acceptance in the areas of digital communications, defense systems, multimedia, video and imaging for this family of devices.

Embedded processing is pervasive throughout the electronics industry and is found in diverse segments such as automotive, networking and industrial. Although Xilinx is a relatively new player in embedded processing, products such as our Virtex-4 FX FPGA family and our MicroBlaze™ soft processor position us to capture incremental opportunities in this vast market.

Increased time-to-market requirements in the consumer space, higher fixed development costs and greater levels of systems integration will continue to favor PLDs over other types of ASICs. With an unprecedented product portfolio, a solid lead in next generation process technology and a strong commitment to pursue untapped opportunities in the areas of DSP, embedded processing and connectivity, we believe that Xilinx is well positioned to outgrow the PLD industry in years to come.

Fiscal 2005 was a busy year and many of our accomplishments would not have been possible without a corporate culture that encourages and rewards innovation. For the fourth year in a row, FORTUNE magazine validated our strong, positive culture by ranking Xilinx in the top 10 of their annual listing of "100 Best Places to Work." Our ability to attract and retain world-class talent is paramount to our success and will continue to be one of our key competitive advantages in fiscal 2006 and beyond.

I will close by thanking our stockholders, customers, employees, partners and suppliers. I believe we have the right strategy, the right team and the right products to expand our leadership and drive continued innovation in the PLD industry.



Willem P. Roelandts

President, Chief Executive Officer and Chairman of the Board