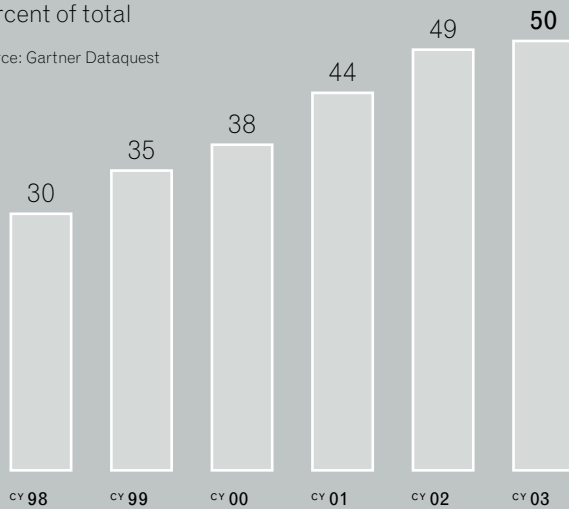


## XILINX PLD MARKET SEGMENT SHARE

Percent of total

Source: Gartner Dataquest

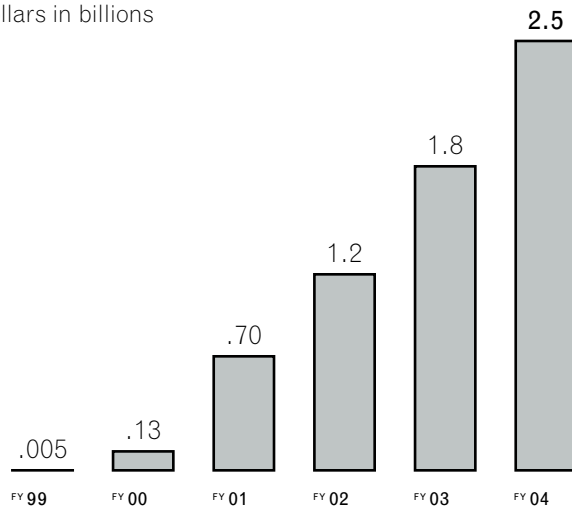


## To our stockholders, customers, and employees

Fiscal two thousand and four was a remarkable year for Xilinx. Amidst renewed optimism and an improving economy, the semiconductor industry began to recover, driven initially by robust demand for consumer applications and later by increased spending from the communications market. Our business recovery began in the second half of fiscal 2003 and continued throughout fiscal 2004, with sales growing sequentially for the last six consecutive quarters. Buoyed by strength across all end markets and geographies, fiscal 2004 revenues increased to \$1.4 billion, up 21% from \$1.2 billion in the prior fiscal year. According to Gartner Dataquest, Xilinx once again outgrew the Programmable Logic Device (PLD) industry, capturing PLD market segment share for the sixth consecutive calendar year.

## TOTAL VIRTEX FAMILY CUMULATIVE REVENUES

Dollars in billions

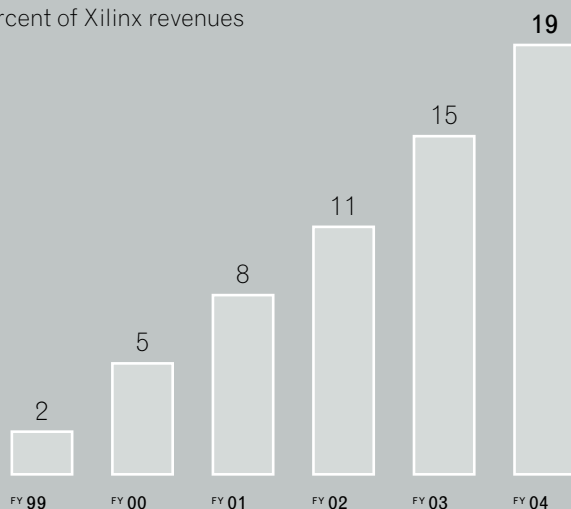


Driven by manufacturing efficiencies and higher revenues, our profitability improved considerably during the year. Fiscal 2004 gross margin was 62%, up from 59% in fiscal 2003. Firm expense controls throughout the year resulted in higher operating and profit margins. In fiscal 2004, operating margin was 23% and profit margin was 22%, up from 13% and 11% respectively, in the prior fiscal year. Our current cash and investments balance is a record high \$1.6 billion, up from \$1.1 billion at the end of last year. During the fiscal year, we generated a record \$424 million in free cash flow, up from \$305 million in the prior fiscal year. Our strong cash position coupled with our ability to generate high levels of free cash flow have been primary factors in our recent decision to pay a dividend, which I will discuss in more detail later.<sup>1</sup>

Our product leadership remains unsurpassed. Sales from our Virtex-II™ Field Programmable Gate Array (FPGA) family increased over 62% in fiscal 2004 versus fiscal 2003 and now exceeds \$100 million per quarter, making it the most popular FPGA family shipping today. Virtex-II devices are integral to a broad base of applications such as 3G base stations, Gigabit Ethernet switching, HDTV broadcasting equipment and satellite surveillance. The high volume Spartan™ family of FPGAs continues to be instrumental to our diversification efforts and has garnered design wins in areas such as digital television, automotive infotainment and home networking. Spartan revenues increased consistently throughout fiscal 2004 representing 19% of total revenues in fiscal 2004, up from 15% of total revenues in fiscal 2003 and up from 2% five years ago. Complex Programmable Logic Device (CPLD) sales increased 19% in fiscal 2004, representing 8% of total revenues. We estimate that our annualized share in this market segment is currently 22%, up from 19% last year and up from 5% five years ago. These devices continue to find their way into high volume applications such as smart phones, automotive telematics, digital cameras and recordable DVD players. Finally, in the area of software, we introduced the latest version of Integrated Software Environment (ISE) software. The combination of ISE with Virtex-II Pro™, the latest generation Virtex family, currently provides customers with 40% faster performance and 15% better logic utilization than the nearest competitive offering shipping. When combined with our library of Intellectual Property (IP) cores for commonly used complex functions such as Digital Signal Processing, bus interfaces, processors, and processor peripherals, customers can dramatically shorten development time, reduce design risk and obtain superior performance.

## TOTAL SPARTAN FAMILY REVENUE GROWTH

Percent of Xilinx revenues



### PROGRESS ON LAST YEAR'S KEY OBJECTIVES

In my letter to you last year, I discussed Xilinx's three key objectives for fiscal 2004. I would like to report on our progress against each of these objectives.

#### *Drive low cost leadership*

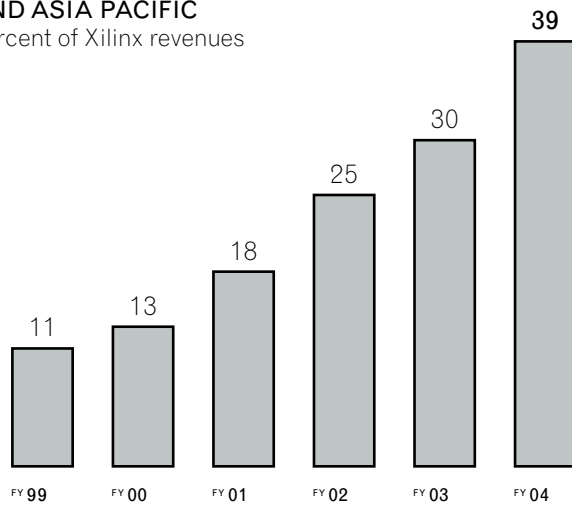
During the year, Xilinx aggressively migrated a significant percentage of our wafer production from 200mm wafers to 300mm wafers, enabling cost savings of approximately 30% per chip and positively contributing to our gross margin improvement. Also, during the year, we introduced the Spartan-3™ platform, the industry's first PLD family to be manufactured using 90nm technology. Spartan-3 devices have been optimized for high-volume, low cost applications and will be an early beneficiary of the lower cost structure afforded by 90nm technology. Ranging from 50,000 to 5 million system gates, Spartan-3 is the world's lowest cost FPGA family with unrivaled price points. Sales from this family surpassed Company expectations in the last quarter of fiscal 2004 and customer demand for these devices is significantly higher than for prior Spartan generations.

#### *Accelerate technology leadership*

Nowhere is our technology leadership more apparent than in the Virtex-II Pro series of FPGAs. This family remains the industry's only FPGA family with embedded high-speed transceiver and processor functionality and continues to lead the industry in density and performance. Virtex-II Pro devices gained traction during the year with sales increasing consistently throughout the year and doubling sequentially in the recently ended March quarter. During the year, we introduced the Virtex-II Pro X FPGAs, offering up to 10 Gbps of high speed serial connectivity. Xilinx is currently the only PLD vendor and one of the only companies in the entire semiconductor industry to provide this functionality, which will enable a number of next generation telecommunications and networking applications requiring high speed. Additionally, in December, we announced a revolutionary new architecture enabling rapid development and deployment of new FPGA platforms giving us a major competitive advantage over competing Application Specific Integrated Circuit (ASIC) and PLD vendors. The first FPGA family employing this architecture will be the next generation Virtex-4™ product line, which will offer substantial competitive advantages in density, cost, performance and functionality.

## REVENUE GROWTH IN JAPAN AND ASIA PACIFIC

Percent of Xilinx revenues



### *Aggressively expand into the ASIC market*

Xilinx made substantial progress towards this goal during the year. Based on calendar 2003 revenues, we estimate that we are now the third largest ASIC company worldwide, up from seventh largest five years ago, according to Gartner Dataquest. Additionally, our share of the PLD market segment increased to 50% in calendar 2003, according to Gartner Dataquest, up from 49% in calendar 2002 and up from 30% five years ago. This marks the sixth consecutive year that Xilinx has increased its share of the PLD market segment, and underscores the increasing importance of our PLDs to electronic designers throughout the world.

## THE NEXT BLUE CHIP COMPANY

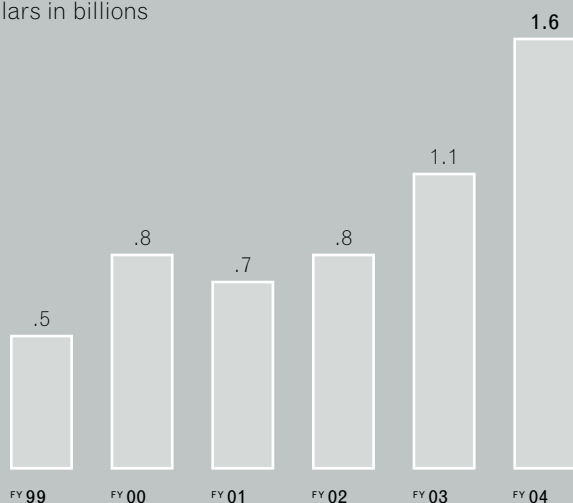
Xilinx is quickly establishing itself as a Blue Chip company. Certain attributes define and differentiate Blue Chip companies from other companies. Below, I identify a few of those attributes and discuss how we are working to achieve each of them.

### *Global Footprint*

Xilinx currently has its worldwide headquarters in San Jose, California and a European headquarters in Dublin, Ireland. In addition, we recently announced the opening of a Singapore office to serve as the headquarters for our operations in Asia Pacific and Japan. Our revenue composition by geography has changed markedly over the last five years. Sales to Asia Pacific and Japan have grown significantly due to increased demand from customers in the consumer sector as well as increased outsourcing by customers in North America and Europe. Xilinx sales into Asia Pacific and Japan represented 39% of revenues in fiscal 2004, up from 30% in fiscal 2003 and up from 11% in fiscal 1999. By providing infrastructure and support to all of our activities in the region, the Singapore facility will bring Xilinx closer to its customers and partners in the region, facilitating the Company's growth in Asia at a time when regional demand for semiconductors—and PLDs specifically—is rapidly increasing. With global operations in the United States, Ireland, and Singapore, we are well on our way to establishing a global footprint.

## XILINX'S CASH AND INVESTMENTS

Dollars in billions



### *Financial Consistency*

As a fabless semiconductor company selling proprietary products, we have consistently generated strong cash flow—in industry upturns as well as downturns. We remain confident in our future growth as well as in our ability to generate cash.<sup>2</sup> As a result, the Xilinx Board recently made the decision to pay a quarterly dividend. We believe this is an excellent way to return value to our stockholders, without impacting future revenue and earnings growth or restricting strategic opportunities. At the same time, we remain committed to buying back our stock and the Board recently authorized an additional \$250 million repurchase program. Xilinx is certainly not immune to the cyclical swings that characterize the semiconductor industry. However, we believe that the disciplined approach of paying a quarterly dividend coupled with increasing our stock buyback program promotes greater financial stability for our stockholders.

### *Strong Management and Corporate Culture*

Finally, strong management and corporate culture are paramount to becoming a Blue Chip company. During the year, we received a number of awards that demonstrate these attributes. *FORTUNE* magazine ranked Xilinx #10 in the magazine's annual listing of "The Best 100 Companies to Work For", marking the fourth year in a row that Xilinx has been included on *FORTUNE*'s top 100 best companies list. We were also selected by *Money* magazine as one of the top 100 companies to watch and one of 20 companies with a great shot at becoming the next Blue Chip stock. Finally, *Forbes* selected Xilinx as the best managed semiconductor company in 2003 and the Fabless Semiconductor Association named Xilinx the most respected public fabless company for the second year in a row. All of these awards were based on a number of criteria including excellence in business practices, technology vision and industry achievement and provide a strong testament to our management and corporate culture.


When measured by the above three attributes, Xilinx is solidly establishing itself as the next Blue Chip semiconductor company.

I remain optimistic about our prospects entering fiscal 2005. Inventory levels throughout the supply chain remain in balance. The accelerated build-out of communications infrastructure in countries such

as China and India coupled with increased corporate profitability will likely spur additional investments in capital equipment and information technology, which in turn drives demand for our chips. With approximately 50% of our revenues coming from the communications sector—more than any other PLD company—we are uniquely poised to benefit from renewed demand in areas such as wireless and enterprise networking. Additionally, our mature product sales have been strong for the past two quarters, which is a positive sign given that growth in these products generally reflects improvement in overall business and economic conditions. Finally, as PLD development costs decrease relative to ASICs, I believe we can continue to capture incremental share of the ASIC market, which Gartner Dataquest estimates to be a \$21 billion opportunity in 2005.<sup>3</sup>

In closing, I'd like to thank our stockholders, customers, and employees. None of our accomplishments would be possible without your hard work and support.

Sincerely,

A handwritten signature in black ink that reads "Willem P. Roelandts". The signature is written in a cursive style with a large initial 'W'.

Willem P. Roelandts

President, Chief Executive Officer and Chairman of the Board

<sup>1,2</sup> *This is a forward looking statement that is subject to risks and uncertainties including Xilinx's continued profitability and its ability to continue to generate cash at a rate necessary to continue paying cash dividends and repurchasing stock.*

<sup>3</sup> *This is a forward looking statement and is subject to risks and uncertainties including customer acceptance of our new products, the ability to drive down costs more rapidly than pure ASIC suppliers, our ability to introduce new products to the market in a timely manner and other risk factors listed in the attached Form 10K.*