XILINX

DEAR FELLOW SHAREHOLDERS: In fiscal 1998, Xilinx extended its broad leadership in the programmable logic industry. While we successfully executed on our ambitious product development plans that I outlined in last year's letter, we also made major strides in software. As a result, our complete programmable logic solutions today combine industry-leading devices, design software, predesigned logic cores, and support services.

The development of a total solution for our customers is at the heart of our long-term strategy, because we believe it will expand our total market opportunity. Many companies that have traditionally used fixed, nonprogrammable gate arrays in their products can now use our field programmable gate arrays (FPGAs) to increase design flexibility and bring new products to market more quickly. As a result, we are now poised to compete not only in our traditional markets but in new markets where FPGAs were once too slow, too expensive, or too limited in density to compete with gate arrays. In this letter I will bring you up to date on our progress in fiscal 1998 and give you a perspective on our business going forward.

Our financial performance during the fiscal year was strongly influenced by a combination of factors, including slow growth in the overall semiconductor market and Xilinx's own transition to new product families. In addition, aggressive competitive pricing for existing products impacted our revenue growth. We also saw a trend toward lower inventories among many of our customers. All of these factors, along with the economic downturn in Asia Pacific, restrained Xilinx's revenue growth during the fiscal year. Total revenue rose 8% to a record $613.6 million, compared to $568.1 million in fiscal 1997. Net income increased to $126.6 million, or $1.58 per diluted share, from $110.4 million, or $1.39 per diluted share, in fiscal 1997.

CREATING NEW OPPORTUNITIES Our successful transition to new products paves the way for new business opportunities. In the past, our customers used smaller, slower FPGAs in limited volumes for specific applications. Two years ago, for example, the average FPGA application used under 20,000 system gates. Today, the average design utilizes more than 50,000 system gates. Meanwhile, we have driven down the cost of our devices while making them faster. Two years ago, the price of a 20,000-system-gate device was approximately $120, and it operated at a speed of 30 to 40 MHz. A similar device now sells for approximately $50 and runs at speeds of 60 MHz to 80 MHz.

As a result, customers can use programmable logic for a broader range of applications. Smaller Xilinx FPGAs costing less than $4 enable customers to bring programmable logic to high- volume product manufacturing, while our high-end FPGAs currently give customers up to 250,000 system gates on a single device. With our next-generation Virtex family of FPGAs, our customers will be able to design complete logic systems on a single Xilinx device. We believe that this system-on-a-chip capability can transform the way our customers use programmable logic in a wider array of products.

As this shift takes place, we believe it will dramatically increase the number of markets available to us. In the short run, however, new customers need time to learn about FPGA technology and incorporate it into their product designs and manufacturing processes. Existing customers also need time to design and prototype new products. Moreover, it takes time before a new product reaches volume manufacturing and Xilinx realizes the revenues from the associated purchase of FPGAs.

XILINX SOFTWARE LEADERSHIP To help our customers design products incorporating today's high-density FPGAs, we are improving the productivity of our software and offering reuseable "cores" of predesigned logic. In fiscal 1998, we added new capabilities and reduced compile times for our design software. We also dramatically improved ease of use for engineers by entering into partnerships with several leading providers of synthesis and simulation tools for FPGA logic design. Improved design software helps our customers reduce their product development cycles, which in turn accelerates the related revenue growth cycle for Xilinx.

We believe that our commitment to software is making a real difference in our business. We have sold more than 40,000 total design seats and are currently selling design software at the rate of 4,000 seats per quarter, up from approximately 1,500 seats per quarter at the end of fiscal 1997. Increased software sales mean that more engineers are designing with Xilinx.

Use of Xilinx LogiCORE products is also growing, which indicates that customers are working on designs for higher-density FPGAs. Cores can cut months out of a product design cycle, and free designers to concentrate on proprietary features that add value and differentiate their products. At Xilinx, we are rapidly building our library of cores by developing some internally and licensing others from third-party developers. We expect to give you a more detailed report on our progress with cores at this time next year.

SUCCESSFUL EXECUTION OF PRODUCT ROADMAP We believe that customers who buy Xilinx design software and LogiCORE products will take advantage of the tremendous progress Xilinx is making in FPGA technology. Our product development roadmap is driving dramatic advances in FPGA density, speed, price, die size, and power. To drive progress in all these areas simultaneously, we are working closely with our manufacturing partners. Together we are pushing our semiconductor fabrication processes just as hard as the microprocessor and DRAM companies are pushing theirs.

The success of our technology program was manifested in fiscal 1998, when we completed the roll-out of three new product families: XC4000XL, Spartan and XC9500. Our XC4000XL family, which in fiscal 1997 introduced 0.35 micron technology to the programmable logic industry, now totals 11 members ranging in density from 2,000 to 180,000 system gates. We also began sampling our new XC4000XV family, which takes advantage of 0.25 micron manufacturing technology to increase the available density to 250,000 system gates using the same architecture.

The XC4000X family, which includes the XL and XV devices, is very important to Xilinx because it enables us to address the large number of customer applications that require 100,000 to 200,000 system gates. Our customers have historically handled these applications using gate arrays. Now our customers have a competitive alternative in FPGAs.

Our customers have also historically relied on gate arrays to address their high-volume applications. Many of these designs have lower densities but are very price-sensitive. To address this important market opportunity, we launched the Spartan family of FPGAs in the fourth quarter of fiscal 1998. Spartan FPGAs leverage all aspects of Xilinx's advanced process technology, but we have focused particular attention on driving down the manufacturing, packaging and testing costs.

Similarly, we have repositioned our XC9500 family to make it the price leader among lower-density complex programmable logic devices (CPLDs). Our strategy at this end of the spectrum is to gain market share while ensuring that manufacturers can get all the programmable logic devices they need from one supplier: Xilinx. This effort paid off in fiscal 1998, as we increased our market position in CPLDs from nearly zero to 5%.

At the opposite end of the spectrum, we announced the Virtex line of next-generation, high-density FPGAs. The Virtex family introduces a completely new architecture that is optimized for logic cores. Just as the XC4000X family was the first to bring 0.35 and 0.25 micron technology to programmable logic, we believe the Virtex family will lead the industry into 0.18 micron territory. For customers, this means up to 1 million system gates on a single piece of silicon and the ability to design programmable systems on a chip with unprecedented performance and efficiency. We are currently shipping design software for Virtex and are planning to ship Virtex products later in the fiscal year.

LOOKING AHEAD Throughout fiscal 1999 we plan to keep up the pace of product development. In addition to rolling out new product families, we intend to continue advancing our design software and building our library of cores. We also plan to market our complete solution more aggressively. One priority is to win new business in our traditional markets, which include telecommunications, data processing, networking, and instrumentation.

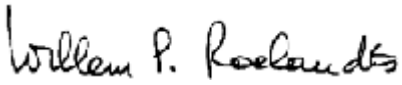
In fiscal 1999 we will also work to penetrate new markets. Before fiscal 1998 ended, manufacturers in the computer, consumer electronics, and graphics industries were already designing products using Spartan FPGAs instead of gate arrays. We intend to pursue more opportunities for our Spartan family in these and other high-volume, high growth markets. With our Virtex family we are focusing on higher-density applications in the wireless telecommunications and multimedia industries, among others. And with our XC95000 family, we will work to continue expanding our share of the CPLD market.

Our marketing efforts should benefit from a fiscal 1998 reorganization of our business into five units, each focusing on a specific market opportunity. I have already discussed four of them: software, high-end FPGAs, high-volume FPGAs, and CPLDs. The fifth is our HardWire business unit, which manufactures fixed, nonprogrammable versions of our FPGAs. For high-volume designs under 40,000 system gates, we believe Xilinx FPGAs are the best choice, and Spartan is our low-cost solution. For higher-density designs, however, shifting from FPGAs to HardWire can provide customers with a cost-effective alternative for high-volume manufacturing. We believe HardWire is a unique competitive advantage that differentiates Xilinx from other programmable logic companies.

As we look ahead into fiscal 1999, I see many positive indicators for our business. Customers familiar with programmable logic are purchasing more Xilinx software and designing products with denser, higher-end FPGAs. Meanwhile, new customers in new industries are asking us how programmable logic could potentially meet their needs. I believe Xilinx is strongly positioned to take advantage of these favorable conditions. We are the undisputed leader at the high end of the programmable logic market, we are the price-performance leader in the high-volume segment, and we are gaining market share in the CPLD segment. Xilinx sets the pace for technological innovation in programmable logic, and offers the most complete customer solution.

All these strengths arise from the talented and hard-working people at Xilinx. I would also like to extend my thanks to you, our shareholders, customers and business partners, for your continued loyalty in the past year. I look forward to our progress together in the years to come.

Sincerely,



Willem P. Roelandts
President and Chief Executive Officer

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