

Dear Fellow Shareholders,

Fiscal 1996 was an excellent year for Xilinx with revenue growth of 58% and net income growth of 71 %. Xilinx revenues increased from \$355.1 million to \$560.8 million. Operating income grew from \$92.0 million to \$165.8 million, and \$0.80 per share, to \$101.5 million, or \$1.28 per share. Excluding the impact of non-recurring charges both in fiscal 1996 and 1995, operating income, net income and earnings per share increased by 96%, 99%, and 86%, respectively. This past year was, however, a year of contrasts. The first half of the year was marked by outstanding growth both for the semiconductor industry in general, and Xilinx specifically. This growth, however, was not sustainable, and during the second half of the year growth rates for both the semiconductor industry and Xilinx softened. We believe this fluctuation was largely the result of customer inventory increases in the first half of the year prompted by concern over product availability. It was followed by an inventory correction in the second half of the year as many customers reduced their inventory levels in response to improved availability of products.

Xilinx Product Strategy

We recognize that our future growth is dependent on the development of new products. Our primary product focus is fourfold: to set a new standard for lower complexity CPLDs, to maintain density leadership with our FPGAs, to give our customers a low cost migration path to high volume applications with our mask programmed "HardWire™" products, and to support all our product families with easy-to-use, fully automated, software.

The New Standard for CPLDs

In-system programmability (ISP) is an emerging market segment of CPLDs. Industry analysts predict that the ISP portion will grow from less than 10% of the CPLD market today to approximately 50% by the year 2000. In addition to introducing ISP, Xilinx is the first company to adopt a Flash-based CPLD architecture. In the past, our CPLD products have made a

limited contribution to our overall revenue. We are convinced that the feature-rich XC9500 family will make Xilinx a much more formidable player in the CPLD market in the ensuing years.

The Fastest, Densest Solutions

Strong market acceptance of our products is being driven by customer demand for higher speed and greater complexity logic devices. Our flagship XC4000 product family comprised 45% of fiscal 1996 revenues, up from 34% one year ago. It has been extended this past year with the introduction of the XC4000E and XC4000EX families. The XC4000E devices are now the primary choice for high performance mid-range designs of 3,000 to 25,000 gates. The new XC4000EX is an advanced version of the XC4000E, with the critical difference being additional routing resources to meet the design requirements for ICs with gate densities ranging from 28,000 today to 125,000 usable gates in calendar 1997. As a result, our XC4000EX series offers the most powerful solution for the mask programmed gate array replacement market by addressing 80% of the density requirements of today's gate array design starts. The XC4000 series together with the XC5200 family provides the widest density continuum of FPGAs in the industry. This extended family of XC4000 products will continue to be a key revenue driver next year and beyond.

Total Product Life Cycle Support

Once customers design with Xilinx, we wish to continue to meet their product needs as their applications go into high volume production. With our HardWire™ products, we provide our customers with a seamless path for cost reduction. We are the only PLD supplier that delivers mask programmed versions of our FPGAs, providing our customers with flexibility as well as total product life cycle support. HardWire™ revenues grew 23% in fiscal 1996 to \$25 million.

Software's Critical Role

Software is critical to Xilinx's success, particularly as our integrated circuit products become more and more complex. We have made impressive strides

with our newly introduced "Foundation" software package, which is targeted at the lower density user. This fully integrated software package is the most complete, push-button software in its price class. For the power user who is familiar with high density FPGAs, we offer the "Alliance" package, an open systems solution that leverages existing EDA partnerships and provides the best silicon utilization in the industry. Thirdly, we are offering fully tested, drop-in solutions called "LogiCores" that cut total development time.

The Need for Leading Edge Process Technology

To manufacture silicon products that are at the forefront of density, performance and cost requires access to leading edge process technology. This past year Xilinx made a \$136 million commitment in a joint venture with United Microelectronics Corporation (UMC). A new foundry providing 8-inch wafers using 0.35 micron initially, and later- 0.25 micron process technology, is being constructed and is scheduled for completion in mid-1997. Upon becoming fully operational, this new foundry offers Xilinx the opportunity to more than double its current wafer capacity. We intend to continue to expand our foundry relationships in the future in order to meet the growing and varied needs of our customers.

Management for the Future

To lead the company forward in achieving these objectives, we welcomed Willem (Wim) Roelandts as Chief Executive Officer, effective January 1996. Mr. Roelandts spent more than 28 years at Hewlett-Packard Co., most recently as a senior vice president responsible for all aspects of the worldwide systems business. He brings to Xilinx extensive experience in the management of global growth along with the required dedication to technological innovation. In today's global marketplace, we are not just selling our products worldwide, we are also developing, purchasing and manufacturing in a number of different locations. Our new manufacturing facility in Ireland is a clear demonstration of our commitment to global expansion. In this annual report, we have focused on Xilinx as a multinational company. Through aggressive new product introductions, technical innovations and ongoing geographic expansion, Xilinx is

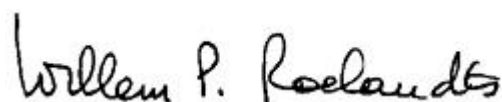
increasing shareholder value. Thank you, our shareholders, for your support this past year.

Sincerely,



Bernard V. Vonderschmitt

Chairman of the Board



Willem P. Roelandts

Chief Executive Officer

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