

LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Fiscal 2004 represented a year of solid execution and growth in almost all aspects of Cisco's business. Given our financial performance, product and market leadership, geographic balance, and very good traction in key growth opportunities—including core routing and switching, Advanced Technologies, and the service provider market—we believe we have uniquely positioned Cisco as the global economic recovery gains momentum.

In fiscal 2004, Cisco invested more than \$3 billion in research and development in order to drive our leadership in technology innovation. Our investment resulted in many new product and system introductions during the year, as well as a strong channel of new products and systems for fiscal 2005. These products and systems offer differentiated value to our customers that we believe no other company in our industry can match. We exceeded our pro forma profit-after-tax target of 20 percent, while maintaining our commitment to offer solutions with price and performance advantages to customers and partners. This balance between profitability and customer success may be one of our best accomplishments as a company and something that only a few IT companies have accomplished over the last several years.

Cisco's key stakeholders—customers, partners, employees, and shareholders—remain at the center of our strategy. Fiscal 2004 reflected our passionate focus on the needs of our key stakeholders, during a time of industry recovery and growth. As Cisco celebrates its 20th anniversary this year, our role as a trusted business and

technology partner is becoming increasingly important as our customers focus on future investments that drive profitability, productivity, return on investment, and cost savings.

FISCAL 2004 PERFORMANCE

In fiscal 2004, Cisco showed strong performance across all financial and operational metrics. Revenue for fiscal 2004 was \$22 billion, compared to fiscal 2003 revenue of \$18.9 billion. Fiscal 2004 net income on a generally accepted accounting principles (GAAP) basis was \$4.4 billion, compared to fiscal 2003 GAAP net income of \$3.6 billion. GAAP earnings per share on a fully diluted basis for fiscal 2004 were \$0.62, compared to \$0.50 for fiscal 2003. Cisco generated \$7.1 billion in cash flows from operations during fiscal 2004, along with our GAAP net income of \$4.4 billion, which illustrates the continued quality of our earnings.

Cisco successfully delivered on all three of the financial priorities outlined in fiscal 2003. First, we balanced the need to grow our business while achieving pro forma net income in excess of 20 percent of revenue. During fiscal 2004, we had a year-over-year increase in revenue of approximately 17 percent, marking the first year of double-digit revenue growth since fiscal 2001. Our revenue growth is a result of a gradual global economic recovery, coupled with increased information technology-related capital spending.



JOHN T. CHAMBERS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Second, we continued to improve our productivity, as measured in terms of operating expense as a percentage of revenue. During fiscal 2004, our operating expenses as a percentage of revenue improved by approximately 4 percent. Additionally, we used our own technology and process changes to increase productivity per employee by approximately 27 percent in fiscal 2004 to \$690,000 annualized revenue per employee, compared to \$545,000 annualized in fiscal 2003. This tremendous increase in productivity contributed to a year-over-year increase in net income of 23 percent. Our profitability growth rate exceeded our revenue growth rate, reflecting our successful execution in driving productivity and operational effectiveness throughout the organization.

Third, we maintained our healthy and conservative balance sheet, while we continued to be active with our share repurchase program. At the end of fiscal 2004, cash and investments totaled \$19.3 billion, days sales outstanding (DSO) were 28 days, and annualized inventory turns were 6.4. During this same period, we repurchased approximately \$9 billion or 408 million shares of our stock at an average price of \$22.30. As of the end of fiscal 2004, our cumulative purchases since the inception of the share repurchase program in September 2001 were approximately \$17 billion, or 956 million shares, at an average price of \$17.70, with a remaining approved repurchase amount of approximately \$8 billion.

We routinely evaluate the most effective use of our cash. Our Board of Directors considers

both future growth opportunities for Cisco, as well as the requirement to provide an attractive return on investment to our shareholders, in this evaluation. We are beginning to see good return on the investments we have made in certain customer markets, technologies, and geographic theaters, evidenced by our strong momentum with service providers, market share increases in Advanced Technologies, and growth in emerging markets such as India and China. Today, we believe a share repurchase program, along with ongoing strategic investments and a strong cash balance, to be in the best interest of our shareholders.

GROWTH AND INNOVATION

The strong growth Cisco experienced during fiscal 2004 was balanced across all three of the growth areas we outlined last year: core routing and switching; the service provider market; and our Advanced Technology markets. Combined with this growth, our ability to continuously innovate and lead the industry in many markets in terms of product and system offerings was a major driver of our success. Cisco gained new customers in almost all of its product areas and in each of the customer markets we participate in—enterprise, service provider, commercial, and consumer.

During fiscal 2004, revenues from Cisco's core technologies of routing and switching increased year-over-year by 11 percent and 15 percent, respectively. In addition to strong revenue growth, we introduced many new routing and switching solutions, including the world's highest-capacity Internet router, the



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CHAIRMAN OF THE BOARD

Cisco CRS-1 Carrier Routing System. These solutions continue to provide significant performance enhancements, often with price reductions, ensuring the balance between customer success, Cisco's profitability, and our leadership in the marketplace.

A significant growth opportunity continues to be in the service provider market, where we have made significant investments over the past several years. Fiscal 2004 was a successful year for us in this market. We expanded our service provider customer base in all geographies, by offering a combination of capabilities that can help these customers build packet-based networks, deploy revenue-generating services over those networks, and accelerate demand from businesses to use those services. We are pleased with our ability to win architectural build-outs, as well as collaborate with major players in this market, and are excited by the opportunities we see in fiscal 2005 as the capital spending environment improves.

Advanced Technologies exceeded our expectations in terms of revenue growth and market acceptance during fiscal 2004. The six Advanced Technologies we identified last year include: home networking, IP telephony, optical networking, security, storage area networking, and wireless technology. Revenue from these markets increased year-over-year by approximately 70 percent, due to growth in all areas. We reached several milestones in these markets during fiscal 2004, such as shipping our 3 millionth IP phone and reaching \$1 billion in annual revenue run rate from our security

business. While we believe each of these six markets has the potential to grow into a billion-dollar business, we will continue to look for opportunities to expand into additional Advanced Technology areas over the next several years.

Innovation has been a major component of Cisco's success over the last 20 years and is integral to our growth over the next 20. Our ability to innovate internally and, at the same time, form strategic alliances and successfully integrate acquisitions will be a competitive advantage that we believe will accelerate our growth in new and existing markets. In fiscal 2004, we continued to collaborate with our alliance partners in order to advance and accelerate our growth opportunities. We also acquired Andiamo Systems, Latitude Communications, Riverhead Networks, and Twingo Systems during the fiscal year, and closed Actona Technologies, Parc Technologies, and Procket Networks in early fiscal 2005. These acquisitions bring leading-edge talent and technology to Cisco's family, enhancing both our core markets and our new areas of growth, including IP telephony, security, and storage area networking.

We believe it is very difficult to achieve the type of growth that Cisco has achieved without taking good business risks. Taking good business risks is an integral part of our growth strategy, and you should expect Cisco to continue to be aggressive in our business strategy and conservative in our financial reporting.



DONALD T. VALENTINE
VICE CHAIRMAN OF THE BOARD

CORPORATE CITIZENSHIP

Our business strategy incorporates our dedication to corporate citizenship. Cisco's responsible business practices span the areas of product stewardship, human resources, ethics, environmental management, supply chain management, governance, and financial disclosure to create sustainability for competitive advantage.

This year's partnerships with nonprofits include Community Voice Mail, which provides VoIP and e-mail services to people in crisis; NetHope, an organization that deploys broadband access and Internet-based voice and data communications to connect humanitarian offices in critical areas of the world; and several initiatives that take advantage of the Cisco Networking Academy Program infrastructure—including the Health Academy and the Jordan Education Initiative. Today, Cisco Networking Academies operate in more than 150 countries around the world, with more than 430,000 students currently enrolled.

In the past year, Cisco employees have worked to improve local communities through their involvement with Cisco Regional Civic Councils and Employee Networks. From working with the City of Slupsk, Poland, to build a broadband wireless network linking government offices and other public institutions, to creating programs encouraging girls and minorities to succeed in science, math, engineering, and technology, Cisco employees are changing the way the world works, lives, plays, and learns.

During this year of our 20th anniversary, we will continue our rich history of community investment. We have challenged Cisco as an organization to give a

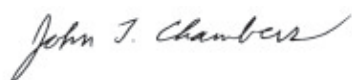
collective 20 years of service back to the community by our 20th anniversary date in December. This represents just over five hours of service per employee, and we are confident that our employees can achieve this goal.

BUILT TO LAST

We are pleased with our strong performance in fiscal 2004 and believe the investments we made 12 to 36 months ago are paying off in terms of our business and financial metrics. Going into fiscal 2005, we will continue to focus on our three major growth areas of core routing and switching, service provider, and Advanced Technologies, as well as network architecture evolution expectations and a continued focus on profit contribution.

For 20 years, Cisco's strategy has included an intense focus on results, catching market transitions, and listening to our customers. We helped build the foundation of the Internet by building the routers and switches that fueled it, and we believe that the best is yet to come in terms of increases in productivity and standard of living that can be created from technology innovation from companies such as Cisco.

We are confident that Cisco is a company that is built to last, and on behalf of our Board of Directors, we would like to thank our customers, partners, employees, and shareholders for your continued confidence and support.



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