

TO OUR SHAREHOLDERS



JOHN T. CHAMBERS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

JOHN P. MORGRIDGE
CHAIRMAN OF THE BOARD

DONALD T. VALENTINE
VICE CHAIRMAN OF THE BOARD



Over the next two decades, the Internet economy will bring about more dramatic changes in the way we work, live, play, and learn than we witnessed during the last 200 years of the Industrial Revolution. Cisco is well-positioned to help our customers survive the Internet Revolution by turning these changes into competitive advantage. We provide the Internet solutions that will help our customers generate new revenue, reduce costs, increase productivity, and empower their employees.

For the past two years, Cisco has been asking business and government leaders around the world, "Are you ready?" Using our company as an example, our focus has been on educating customers about how effective use of the Internet can increase productivity and revolutionize their business models. Today, our customers are not only ready, but are turning to Cisco to show them how to capture the power of the Internet by implementing open standards-based Internet business models.

During the last decade, our passion has been to increase customer satisfaction and to achieve our stretch goal of maintaining the number-one or -two market share position in every market in which we compete. Today, Cisco holds a leadership position in 16 of our 17 key markets. Cisco's success is the result of our solutions that provide data, voice, and video over a single network and our ability to blend internal development, acquisitions, and partnerships.

Cisco benefited from exceptional returns this past year because we successfully increased our customers' satisfaction. For fiscal 2000, Cisco reported revenue of \$18.93 billion, a 55-percent increase when compared with revenue of \$12.17 billion in fiscal 1999. Pro forma net income was \$3.91 billion or \$0.53 per share for fiscal 2000, compared with pro forma net income of \$2.52 billion or \$0.36 per share for fiscal 1999, increases of 56 percent and 47 percent, respectively. Actual net income for the year was \$2.67 billion or \$0.36 per share, compared with fiscal 1999 net income of \$2.02 billion or \$0.29 per share.

Cisco has been one of the fastest-growing and most profitable companies in the history of the computer industry. We are widely accepted as the Internet expert and the Internet company, which is an obvious advantage when we talk to customers about their futures. Our success has been rewarded with one of the highest market capitalizations in the world. This achievement is the result of our commitment to help customers become successful in today's ever-changing, competitive landscape.

The Internet economy has grown more rapidly than even our most optimistic predictions and fuels the strongest period of economic prosperity in history. In the United States alone, this economy added 650,000 jobs and generated revenue in excess of half a trillion dollars in 1999. To put this in perspective, the Internet economy's workforce now surpasses the entire active U.S. military, insurance, communications, and public utilities industries and is twice the size of the airline, chemical and allied products, legal, and real-estate industries.

There is a direct correlation between the strength of this economy and the unprecedented productivity gains we are witnessing today. We refer to this phenomenon as the “Network Effect,” which is the result of information technology becoming networked and Internet applications being used to re-engineer business processes. Companies that understand the Network Effect can gain competitive advantage by quickly detecting and responding to situations such as real-time changes in customer demand.

Cisco has become a trusted technology partner and business advisor to many of the largest companies in the world. We are not only a technology advisor, but also an advanced user of Internet technology to run our own business. The adoption of Internet applications in each of Cisco’s functional areas is an integral part of our business-planning process and results in tremendous productivity benefits and cost savings. During this past fiscal year, for example, 90 percent of our customer orders were transacted over the Internet. We have created world-class e-commerce, customer support, and workforce optimization applications and are the leader in virtual manufacturing, virtual close, and e-learning solutions.

Our goal is to help customers develop similar, Internet-centric business models so that they can benefit from productivity improvements. For example, our Internet Business Solutions Group has consulted with executives in more than 50 percent of the Fortune 250 companies, 45 percent of the top companies in Europe, the Middle East, Africa, and Asia, and 65 percent of the leading service providers. This group provides business-strategy consulting and helps move our relationships with customers from that of a vendor to a strategic partner.

Successful companies in the 1980s achieved their leadership positions with a vertical business model and an internal focus. In the 1990s, Cisco changed the dynamics of market leadership by focusing on a combination of internal development and acquisitions. This decade, leading companies will develop internally, acquire effectively, and form an “ecosystem” of partnerships in a horizontal, rather than a vertical, business model.

Companies participating in an ecosystem—an open standards-based community that works toward a common goal—will emerge as the market and industry leaders of the future. Customers are the real beneficiaries of our ecosystem model because it allows us to remain agile, quickly enter new markets, and provide both breadth and depth of solutions through the ecosystem community.

In addition to expanding our ecosystem, we also increased our investment in internal product development by 61 percent and continued to grow through acquisitions. Since 1993, we have acquired or announced our intent to acquire 65 companies. Moving forward, our technology strategy will continue to be driven by internal development complemented by acquisitions and strategic alliances.

INSIDE CISCO

Five years ago it took Cisco 14 days to close its books each quarter. Now, with the “virtual close,” using powerful Internet technology, Cisco executives have real-time, daily access to company financial information, empowering them and their employees to instantly react to market shifts and changing business requirements.

Following the lead of business, we saw governments from around the world begin to recognize the strong correlation between the Internet and economic success. This past year, we met with government leaders from many countries, including Argentina, Chile, China, France, Germany, Italy, Japan, Jordan, Korea, South Africa, Taiwan, and the United Kingdom. They all realized the Internet's potential impact on their country's future and were eager to learn how to use the Internet more effectively.

The Industrial Revolution of 200 years ago divided society by creating a gap between the "haves" and "have-nots." Today's Internet Revolution has the potential to unite everyone by combining the strength of the Internet and education, the two great equalizers in life. By applying what we've learned in business to all aspects of society, we have the power to use technology to create an Internet gateway that has the potential to positively change people's lives.

Cisco is in a unique position to be a pioneer in embracing this digital opportunity and closing the gap. As such, our philanthropy strategy focuses on education, workforce development, and basic human needs. We continue to invest and grow the Cisco Networking Academy Program, which has enrolled more than 81,000 students in 83 countries. These academies provide networking skills to a broad range of students, including those in high school, community colleges, homeless shelters, and juvenile centers and outgoing military personnel.

In addition, our employees contributed more than \$1 million to the Second Harvest Food Bank this past year. Cisco gave more than \$2.5 million in grants to our global community and committed another \$5 million to Habitat for Humanity over the next five years. We also launched the Netaid.org Web site and movement, a joint initiative with the United Nations Development Program, a number of talented musicians, and several technology companies, to help end the cycle of extreme poverty. Our employees supported additional programs such as the Special Olympics, InnVision, the National Teacher Training Institute, and a variety of global relief efforts. These efforts are Cisco's way of preparing future generations and less-developed nations to participate in the Internet economy.

In our opinion, the radical business transformations taking place around the world will accelerate, making the opportunities ahead of Cisco far greater than ever before. We believe that Cisco has the potential to be the most influential and generous company in history. We are in the fortunate position to be at the center of the Internet economy, and we recognize that although this position gives us confidence, we must balance this confidence with healthy paranoia.

We are proud of our accomplishments and want to thank our shareholders, customers, employees, partners, and suppliers for their continued commitment and confidence in our ability to execute. Together, we are only beginning to explore all that's possible on the Internet.

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