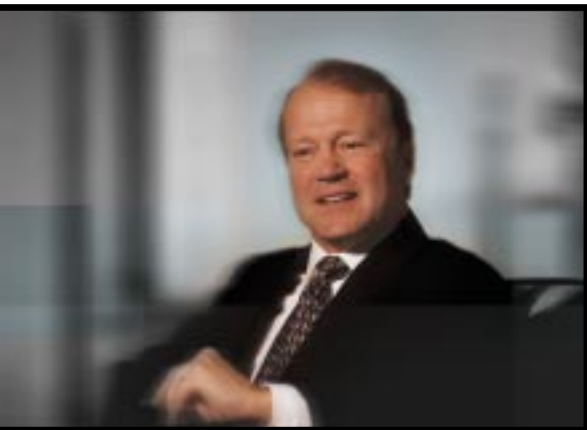


CONVERSATION WITH CISCO MANAGEMENT

Given the dramatic industry challenges this past year, Cisco understands there are a number of questions about our strategy to lead in the Internet economy. Therefore, we would like to take the opportunity to address some of these questions with answers from John Chambers, President and Chief Executive Officer; Larry Carter, Senior Vice President and Chief Financial Officer; Mario Mazzola, Senior Vice President, Chief Development Officer; Rick Justice, Senior Vice President, Worldwide Field Operations; and James Richardson, Senior Vice President, Chief Marketing Officer.

Q. Do customers continue to believe in the benefits of the Internet?

A. John Chambers: If I had been asked this question three years ago, I would have said that most business and government leaders viewed technology investment as an expense item with little understanding of the productivity improvements that result from increased investment. Today, the opposite is true. I think the vast majority of business and government leaders around the world grasp the potential of the productivity, profitability, and standard of living implications that Internet-based applications offer. Having said that, customers will not spend as much money in any area during economic slowdowns as they will during normal times. I believe our industry is tied to capital spending and economic growth on a global basis, but as I've already said, leaders truly understand the benefits that these applications can bring, regardless of industry or geographic location.



JOHN CHAMBERS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Q. Can you describe the paybacks of Internet-based applications?

A. John Chambers: Cisco continues to be the best reference in the world for how to use Internet-based applications across an entire organization. These applications will launch in waves, first across an entire company, then across functional areas, departments, and at the small group or individual level. Adoption of these applications will occur across all industries, including those as diverse as health care, transportation, insurance, retail, and government agencies. While the applications might vary, the productivity improvements that result are remarkably consistent.

Some examples of this include General Electric, which estimates it can save \$1.6 billion on internal productivity improvements as a result of using the Internet. This year, it plans to spend \$3 billion on information technology (IT) in the effort to “digitize every aspect of the company,” a 12 percent increase in its IT budget over last year. Similarly, Baxter International Inc., a global medical products and services company, is using the Internet to drive operational excellence. Baxter believes it will save \$40 million in 2001 from a strategic sourcing initiative enabled in part by e-procurement, a 33 percent increase over fiscal 2000, and also expects to save \$8 million in transportation costs by leveraging the Internet. None of this would be possible without the power of Internet technologies.

Q&A



LARRY CARTER
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Q. Do you still have confidence in your internal systems and applications?

A. Larry Carter: The information our systems provide us on a daily basis is instrumental in running our business. While no systems have ever been built to model a downturn like the one we recently experienced, having real-time information allowed us to make quick, effective decisions. Our ability to strategically leverage our systems going forward is key to sustaining our competitive advantage.

Q. What makes a great leadership team?

A. John Chambers: I view my role as President and Chief Executive Officer at Cisco with three main responsibilities: first, to determine, with the leadership team, the strategy of the organization; second, to develop and grow the leadership team to implement that strategy; and third, to drive the culture of the organization. A great leader has a diversity of experience and skill set, along with the ability to work together successfully in a broader organization.

Teamwork is critical, and while a healthy give and take is important to arrive at the best solutions, I believe that once we make a decision, we all work together toward common goals. I am extremely proud of the depth and breadth of Cisco's leaders. We will continue to evolve our leadership team and grow it through internal promotions and external hiring both this year and next year.



The vast majority of business and government leaders around the world **grasp the potential** of the productivity, profitability, and standard of living implications that Internet-based applications offer.

Q. Services now account for an increasingly large part of Cisco's business. Can you tell us more about it?

A. Larry Carter: We have found there is a direct relationship between the quality of our services, customer satisfaction, and the amount our customers invest in our services offerings. Our services business has nearly doubled as compared to the prior year and is currently on a multibillion dollar run rate with over 60 percent gross margins. For fiscal 2001, approximately 12 percent of Cisco revenue, or \$2.7 billion, was generated by support, professional services, and other miscellaneous service revenue. Our services goal is to increase customer satisfaction, technology absorption, and long-term Cisco profitability. As services grow as a percentage of our business, we believe it will become a predictable segment of Cisco revenue.



MARIO MAZZOLA
SENIOR VICE PRESIDENT, CHIEF DEVELOPMENT OFFICER

Q. What new technologies hold the most promise for Cisco and its customers?

A. Mario Mazzola: New applications and business models require an investment in infrastructure to create the right conditions for wide-scale business and consumer use. We call these “tornado” markets, which can be described as a rapid uptake of cutting-edge products to progressively larger markets.

Tornado markets are still occurring. Cisco's ability to address these opportunities stems from our expertise in the Internet, and its *lingua franca*—the Internet Protocol (IP). IP is the architectural foundation for networks and is the core disruptive agent of the Internet. IP not only enables services that transform applications, but also imposes different requirements on the underlying transport infrastructure of a network. This opens the door to a number of market opportunities for Cisco today, as well as new technologies that Cisco can take advantage of in the future. Technologies like virtual private networks (VPNs) over the Internet and private IP networks will redefine how businesses and consumers access the Internet, and in a much more cost-effective way. The wireless Internet will bring the richness of Internet content to mobile users. The world of video streaming will also be improved by the use of content delivery networks (CDNs) that will efficiently transport video via the Internet.

Q. How does Cisco stay ahead of the wave of innovation?

A. Mario Mazzola: Customers are our number-one priority. Cisco stays ahead of the wave of innovation through a combination of world-class engineering resources, partnerships, and the technology we acquire. This hybrid approach allows us to quickly innovate new applications, business models, and infrastructures that will give us a competitive advantage. At Cisco, we maintain a careful balance between these areas to ensure best-of-breed products in the markets we address.

Q. With your new structure that organizes the engineering department by technology groups versus the line of business focus, has your commitment changed to your key enterprise, service provider, and commercial business customer segments?

A. John Chambers: This reorganization maps closely to how our customers are currently making business decisions. Today, our customers want a consistent product architecture across their integrated networks—a seamless combination of their intranets, service provider networks, commercial networks, and the Internet. Our line of business structure served us well over the last four and a half years as we grew from \$6 billion in revenue to over \$22 billion. However, we were beginning to experience product overlap and were less effective in sharing both resources and innovations across our broad engineering organization than I would have liked.

As a result, we moved to a structure that optimizes Cisco's ability to deliver a seamless Network of Networks. With this new organization, our three customer segments remain key to our future success, and will remain the core focus throughout our company. Business councils have been formed for each customer segment, and will be led by a senior vice president with a wealth of experience to ensure this focus. Moving forward, I fully expect that our enterprise and service provider businesses will fluctuate on a yearly and industry trend basis as we have experienced over the last several years. What is difficult to forecast is the degree to which our enterprise customers will build their own networks, or outsource their needs to a service provider. Regardless of the balance, I believe Cisco is in a position to provide both solutions. Our goal is to be the number-one market player in all three segments as they move toward integrated data, voice, and video networks.



Cisco stays ahead of the **wave of innovation** through a combination of world-class engineering resources, partnerships, and the technology we acquire.



RICK JUSTICE
SENIOR VICE PRESIDENT, WORLDWIDE FIELD OPERATIONS

Q. When you're with customers, do you think they are still confident in investing in the Internet?

A. Rick Justice: Yes, I do. From my experience talking to customers around the world, companies continue to see the Internet as a tool to communicate better, become more efficient and productive, and better serve their customers. Companies understand that the Internet is quickly becoming an integral part of conducting business, which is true for companies of all sizes. Two-thirds of small businesses now have access to the Internet, and many smaller firms are engaging in e-commerce and e-service. Even more importantly, customers are seeing the significant benefit of the increased productivity that comes from integrating the Web into their business operations. A 2001 report by the Federal Reserve Bank of New York found that industries that invested the most in information technology in the early 1990s experienced

the greatest productivity gains during the late 1990s. These types of tangible benefits give companies confidence that the Internet is still an invaluable investment.

Q. How does Cisco maintain its entrepreneurial spirit?

A. James Richardson: Innovation, entrepreneurial spirit, and taking calculated business risks have always been hallmarks of the Cisco culture. In that spirit, we continue to cherish and reward innovators within the company. Cisco's Distinguished Engineer, Cisco Fellow, and Pioneer Technology Award programs promote the entrepreneurial spirit that has been at the root of our company's success. The Distinguished Engineer and Cisco Fellow programs were developed as a way of recognizing the contributions of key technical employees and allowing them to set and influence the company's technical direction, while encouraging them to communicate those developments to the industry at large.

Q&A



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the continued **impact of the Internet** on productivity.



Over the years, Cisco's innovative spirit has resulted in the development of key Internet technologies such as IPv6, quality-of-service (QoS) over IP, Multiprotocol Label Switching (MPLS), Dynamic Packet Transport (DPT), and data-over-cable technologies. The Pioneer Technology Award program recognizes the contributions of engineering teams that drive the development of innovative products and core technologies to a new level of excellence. This year's winners include the teams that developed the Cisco 12400 Internet Router, our industry-leading VoIP technologies, and the innovative Ternary Content-Addressable Memory (CAM) that enables high-speed routing and switching. Shareholders are welcome to visit our Innovation site at www.cisco.com/go/innovation to learn more.



JAMES RICHARDSON
SENIOR VICE PRESIDENT, CHIEF MARKETING OFFICER

Q. What is your vision for the future of the Internet economy?

A. John Chambers: Our confidence in the market opportunity is built on the continued impact of the Internet on productivity. Much more work needs to be done before every company is an e-company, and a majority of the world's countries are e-countries with virtual networked infrastructures. However, we believe that the long-term productivity gains resulting from this are what will matter most to a company's future competitiveness and a country's standard of living.