



GLOBAL
NETWORKING

To Our
Shareholders

FISCAL 1997 WAS ANOTHER SUCCESSFUL YEAR FOR CISCO SYSTEMS. OUR ANNUAL GROWTH RATE OF 57 PERCENT MEANT THAT WE GREW AT A FASTER PACE THAN ANY OF OUR TRADITIONAL COMPETITORS. THE REASONS FOR THIS ARE CLEAR. ORGANIZATIONS OF ALL SIZES ARE BEGINNING TO RECOGNIZE THE VALUE OF THEIR INFORMATION NETWORKS AND THE INTERNET AS A SOURCE OF BUSINESS ADVANTAGE. AS A RESULT, MANY OF CISCO'S CUSTOMERS ARE BEGINNING TO TURN TO US AS THEIR STRATEGIC PROVIDER FOR END-TO-END NETWORKING SOLUTIONS. TO MEET THEIR INCREASING DEMANDS THIS PAST FISCAL YEAR, WE DELIVERED A WIDE RANGE OF NEW PRODUCTS; EXPANDED OUR OFFERINGS THROUGH INTERNAL DEVELOPMENT, ALLIANCES, AND ACQUISITIONS; ENHANCED OUR CUSTOMER SUPPORT; AND INCREASED OUR PRESENCE AROUND THE WORLD.



From left to right:

John T. Chambers
President and
Chief Executive Officer

John P. Morgridge
Chairman of the Board

Donald T. Valentine
Vice Chairman of the Board

Our efforts helped Cisco deliver exceptional value and returns for our customers, shareholders, business partners, and employees. For the fiscal year ending July 26, 1997, Cisco reported revenue of \$6.4 billion, a 57 percent increase compared with revenue of \$4.1 billion in fiscal 1996. Net income for the year was \$1.0 billion or \$1.52 per common share, compared with fiscal 1996's net income of \$913 million or \$1.37 per common share. Research and development investment increased to \$698 million, up from \$399 million the previous year. Cisco ended the year with a cash, cash equivalents, and short-term investments balance of \$1.3 billion, compared with a year-end balance of \$1.0 billion in 1996.

Much of our success has been because of our close awareness of our customers' needs. To remain close to our customers, we realigned our organization along

Networking is changing the way we live, work, play, and learn, and Cisco is pleased to play a leading role in bringing the power of networking to everyone.

Applications such as networked commerce, telecommuting, home banking, and distance learning would not be possible without the systems and software we provide.

If you've ever used the Internet, chances are that Cisco has touched your life, because virtually every piece of information sent over the global Internet passes through Cisco products.

lines of business matched to the key markets we serve: Enterprise, Service Providers, and Small/Medium Business. The new organization will enable us to provide market-specific, end-to-end solutions that include integrated software, hardware, and network management. It will also allow us to customize our sales, support, and business programs to each key market.

Additionally, our focus on market solutions will improve our ability to deliver world-class products. Today, we are the number one or number two supplier in almost every product sector that we address, and we are rated the best in terms of customer support and design consulting. Our Cisco IOS software is increasingly becoming the de facto industry standard for delivering network services and enabling networked applications.

Our goal has always been to provide solutions for our customers without imposing a particular technology as the only "right" answer. Cisco continues to deliver the products that best address our customers' requirements through the innovation of our engineering teams, complemented by our alliances, acquisitions, and minority investments.



Of all the companies that Cisco has acquired to date, almost half were added in fiscal 1997. The technology expertise we've gained this year through acquisitions includes network management, Digital Subscriber Line (DSL), and voice/data/video integration. We expect acquisitions to play an ongoing key role in our leadership strategy.

Strong alliances will also be an increasingly important element of our future strategy. This year Cisco continued to develop key relationships with industry leaders such as Microsoft, Intel, Hewlett-Packard, GTE, and Alcatel in order to enable consistent network services throughout the fabric of the network. Within Cisco, we've created a new group to focus primarily on the development and success of our strategic alliances. This new team, which encompasses engineering, marketing, and sales, will allow us to work closely with our alliances and move quickly to jointly deliver solutions to the marketplace.

Also key to Cisco's success is the Cisco brand itself, which is recognized worldwide as the leading name in networking. Customers have come to associate the Cisco brand with a secure, reliable, high-performance network; a brand in which they can have confidence. We will continue to enhance and expand our brand in the future.

The ongoing deregulation in the telecommunications market and the convergence of technologies such as Asynchronous Transfer Mode (ATM) and DSL are driving the trend toward integration of voice, video, and data networks. In the upcoming years, we will continue to extend our presence in this area. As the Internet becomes

an integral part of people's business and personal lives, we will sustain our move into emerging markets as the leading provider of networking solutions.



While the future holds many exciting opportunities for Cisco, our success will depend on how well we execute our strategy and manage the challenges. We must maintain our passionate customer focus and always work toward exceeding our customers' rapidly increasing expectations, winning their vote as their strategic end-to-end networking provider. It is essential that we successfully implement our alliance and

acquisition strategy. Faced with increased competition, it is also important to maintain our product leadership in each market segment that we serve while expanding into new markets. In addition, we must continue to hire and retain the best people in the industry.

We are fortunate to be in a marketplace that offers so many exciting opportunities. We would like to personally thank our customers, shareholders, business partners, suppliers, and employees for their commitment and contributions over the past year. Looking to the future, Cisco is well positioned for the years ahead. In this annual report, you will learn more about the compelling business advantages that networks are delivering each day. Networking is truly changing the way we live, work, play, and learn, and we are proud to play a leading role.

The consolidation trend that began two years ago in our industry is continuing and may, in fact, be accelerating. It is widely accepted that in the future, a small group of key players will drive this industry. Cisco's leadership in networking positions us well to benefit from this trend.

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