



To Our **Shareholders**



John T. Chambers



Donald T. Valentine



John P. Morgridge



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More than 200 years ago, the Industrial Revolution had a profound impact on the global economy. Today's Internet Revolution will have a worldwide impact of even greater magnitude and will alter the fortunes of companies, countries, and people. The Internet is changing the way we work, live, play, and learn in ways we are just beginning to explore. These changes are creating an Internet Economy where technology connects everyone to everything and where open communications, open standards, and open markets prevail.

In this new economy, seven people gain Internet access every second, and electronic mail messages outnumber regular mail by nearly ten to one. If you have accessed the Internet or sent e-mail to a friend or coworker, it is likely that Cisco products transferred your data, because virtually all of the information on the Internet travels across our systems.

During a very challenging year for our industry, Cisco experienced an annual growth rate of 31 percent and gained market share in each of the key areas in which we compete. As a result, Cisco's shareholders, business partners, and employees shared exceptional value and returns. For the fiscal year ending July 25, 1998, Cisco reported revenue of \$8.5 billion, a 31 percent increase compared with revenue of \$6.4 billion in fiscal 1997. Net income for the year was \$1.3 billion or \$0.84 per diluted common share, compared with fiscal 1997's net income of \$1.0 billion or \$0.68 per diluted common share.

Continued acceptance of our end-to-end network solutions and services helped fuel success this year in each of our target markets—Enterprise, Service Provider, and Small/Medium Business. In the enterprise space, a growing majority of our customers have implemented end-to-end networks and are now incorporating voice into these networks. In the service provider market, we made



considerable strides in establishing leadership by delivering broadband capabilities and integrated data, voice, and video networking solutions. Our small/medium-sized business market also grew substantially last year, largely due to our two-tier distribution strategy. And in June, we announced a new Consumer line of business to address the increasing demand for Internet services and products in the home.

Our technology leadership strategy continued to focus on internal product development, alliances, partnerships, and acquisitions. As a result, we continue to hold the number one or number two market share position in each of the key areas in which we compete.

In many ways, Cisco itself is the best example of a company using Internet technology to gain a sustainable, competitive advantage through improved business practices. Today, our customers, employees, shareholders, business partners, and suppliers use our award-winning Web site to obtain information, request support, complete business transactions, and place orders. Cisco now has one of the world's largest electronic commerce sites. Last year, more than 64 percent of our orders and nearly 70 percent of our customer inquiries are handled via the Web.

Outside our walls, we expanded our relationships with Microsoft, Hewlett-Packard, EDS, and Sprint and created new alliances with KPMG, PeopleSoft, and INS. We also extended our business alliances with Fujitsu and Japan Telecom, while announcing strategic relationships with US West, Hitachi, and NTT.

In addition, through acquisitions, Cisco seeks to gain world-class people and technologies. This year we made six acquisitions, bringing our total to 25. We fully expect that acquisitions will continue to play a major role in bringing industry-leading solutions and services to market.

As the worldwide leader in networking for the Internet, Cisco is in a unique position to speak with influential business and economic leaders. This past year we met with heads of state from Japan, Australia, Germany, Russia, France, China, and other countries to discuss the impact of the Internet on education and on their economies.



*There are **seven**
new **people**
on the Internet
every second*



Through these conversations and others, it is apparent that the number one issue facing our industry is the lack of skilled high-tech workers. The Internet Economy has helped create more than 350,000 job openings for high-tech workers. Our challenge is to educate and train individuals for these jobs. This year Cisco launched the Cisco Networking Academy program to certify high school and community college students in computer networking. The program's acceptance has been overwhelming. With more than 900 Cisco Networking Academies in nine countries worldwide, this program is preparing and graduating students for careers in networking.

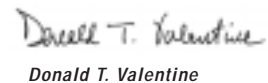
As part of the new Internet Economy, entire industries are refocusing and reinventing themselves. In the telecommunications sector, the convergence of data and voice networks is spurring an industry consolidation. As a result, we believe that the networks of the future will be packet-switched (data) versus the circuit-switched (voice) networks of the past.

We expect to see leading telecommunications providers move quickly into this lucrative new market. In a show of industry leadership and in close alignment with Cisco, Sprint was the first major telecom company to announce a strategic commitment whereby data, voice, and video communications will be converted to a packet-switched (data) network. Our core strengths in data communications, together with our ability to partner and acquire, position us well to emerge as a leader in this new world.

We believe that the future holds many exciting opportunities for everyone in the Internet Economy, and Cisco is proud to play a key role in empowering the Internet Generation. We'd like to thank our customers, shareholders, business partners, suppliers, and employees for their contributions toward our success this past year. We feel confident that Cisco is well positioned to lead in the emerging new world. Together, we truly are changing the way people work, live, play, and learn.


John T. Chambers
President and
Chief Executive Officer


John P. Morgridge
Chairman of the Board


Donald T. Valentine
Vice Chairman of the Board