



JOHN T. CHAMBERS
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

To Our Shareholders

Cisco predicted that the Internet would change the way we work, live, play, and learn. Just four years ago this was considered a bold statement, but today few would argue that the Internet is changing every aspect of our lives. In fact, the Internet is emerging as a major force behind the strongest U.S. economy in history.

By providing the systems that make the Internet work, Cisco is helping customers compete in the explosive Internet economy by implementing Internet business models and building New World communications infrastructures that turn change into competitive advantage. As a result, we have grown faster than all of our key competitors. We have been rewarded with one of the top ten market capitalizations in the world, and we have been recognized as the fastest growing, most profitable company in the history of the computer industry.

Cisco's own ability to harness the power of the Internet and use change as a competitive advantage has resulted in exceptional value and returns for our shareholders this past year. For the fiscal year ending July 31, 1999, Cisco reported revenue of \$12.15 billion, a 43 percent increase compared with revenue of \$8.49 billion in fiscal 1998. Net income for the year was \$2.10 billion or \$0.62 per common share, compared with fiscal 1998 net income of \$1.35 billion or \$0.42 per common share.



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CHAIRMAN OF THE BOARD

DONALD T. VALENTINE
VICE CHAIRMAN OF THE BOARD

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A recent study by the University of Texas found that in 1998 alone, the **Internet economy** in the United States generated more than \$300 billion in revenue and was responsible for more than 1.2 million jobs. In just five years since the introduction of the World Wide Web, the Internet economy already rivals the size of century-old sectors such as energy, automotive, and telecommunications. Milestones that took up to 100 years to achieve in the Industrial Age are occurring at a staggering pace in this new economy.

Cisco's number one priority and passion continues to be **customer focus**. We are committed to helping our customers become agile by implementing Internet business models that will position them for success in today's fast-paced business environment. Our leading-edge customers are deploying networks for the next century that deliver data, voice, and video capabilities over a single network. Cisco's acknowledged expertise in providing combined data, voice, and video networks has spurred the continued acceptance of our end-to-end Internet systems in each of our key markets.

By employing our own **Internet solutions**, Cisco has maintained its agility and competitive advantage. All of the company's business operations—from supply chain management to employee communications—are Internet-based. Today, 80 percent of our orders and more than 80 percent of our customer inquiries are transacted over the Web. For the third year in a row, we were awarded the prestigious WebBusiness 50/50 Award from *CIO Magazine* for both our internal and external Web sites.

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a global **Internet economy** that is
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Our strategy for **technology excellence** is to focus on internal product development and blend that with acquisitions and partnerships. This strategy has allowed us to add more than 65 new products, acquire 11 companies, and develop dozens of partnerships to help us pursue emerging markets and achieve market share leadership over the last year. Cisco holds the number one market share position in 16 of the 20 key markets in which we compete. We hold the number two position in the remaining four areas. Some of these new emerging market opportunities include broadband access, voice over IP, and optical internetworking.

The rise of the Internet economy can be tied to an emerging "**Internet ecosystem**"—a new business model for Internet-connected businesses to serve Internet-connected customers. The open nature of the Internet encourages complementary business alliances that create a unique set of

interwoven dependencies and relationships. Since Internet ecosystems are open, they encourage new members to participate and foster a collaborative relationship among members.

Companies in an Internet ecosystem use the Internet as a competitive advantage to create value for their customers. Examples of how we expanded our own ecosystem include our relationships with companies such as Motorola, Hewlett-Packard, and KPMG. Our unique alliance with Motorola focuses on integrating data, voice, and video services over wireless networks. Together we formed a company called SpectraPoint to deliver fixed wireless solutions to businesses. We also partnered with Hewlett-Packard and KPMG in many areas; for example, we jointly announced the New World Operation Support System program, which is designed to accelerate service provider success in the new competitive landscape.



The impact of the Internet economy is **global**, reaching both business and government. Business leaders worldwide recognize the strategic role that the Internet plays in their company's ability to survive and compete into the next century. Government leaders increasingly understand that the Internet will shape the future of their economic welfare and the welfare of their citizens. This past year Cisco met with more than a dozen heads of state, including leaders in the United Kingdom, China, Korea, Australia, Israel, and the United States. All were eager to discuss how the Internet could improve their economies and position them for leadership in the Internet economy.

As an industry leader, Cisco recognizes the importance of our continued participation in the global community to help improve people's lives. On the education front, the Internet is driving the demand for e-learning applications, one of the most powerful learning tools of the next decade for schools, businesses, and individuals. We continue to invest and grow the **Cisco Networking Academy Program**, which prepares students for the jobs of the future. Businesses, local communities, governments, and foundations have joined us in support of the program through various methods of sponsorship. With more than 2,500 academies in 39 countries, this program is our way of increasing the pool of qualified IT professionals and ensuring that business and government work together on their common goal of preparing students for the future.

This year we have also extended our efforts to help improve the way people live through the use of the Internet. In a unique effort to end extreme poverty in the world's poorest nations, Cisco and the United Nations Development Program (UNDP) have teamed up to create **NetAid**. This initiative represents the first time in history that the United Nations has formed an alliance with a major private corporation. NetAid uses the power of the Internet to mobilize people around the globe by using the World Wide Web as an information resource in the effort to eradicate extreme poverty.

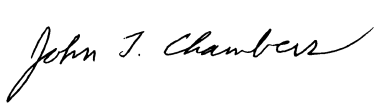
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Cisco has also been quick to help in other **global community outreach efforts**. In Kosovo, we set up networks and Web sites to help refugees contact and reunite family members. During the International Special Olympics in North Carolina, Cisco Networking Academy students and Cisco employees maintained the computer systems and Web site, posting real-time scores and updates around the world.

Through innovative programs, partnerships, products, Internet applications, and our focus on the customer, Cisco has been able to maintain its agility and turn the constant change of the Internet

economy into a **competitive advantage** for our own company as well as for our customers.

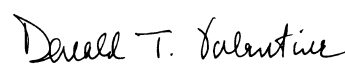
The Internet is driving a global Internet economy that is creating unprecedented opportunities for countries, companies, and individuals around the world, and Cisco is proud to play a key role in leading this Internet economy. We'd like to thank our shareholders, customers, employees, partners, and suppliers for their commitment and continued confidence in us this past year. Together, we are truly empowering the Internet generation as we move into the Internet century.



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