



**JOHN T. CHAMBERS**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

## TO OUR SHAREHOLDERS

During the last fiscal year, Cisco used this period of market transitions to drive innovation through the introduction of new technologies, products, and solutions while implementing price and performance improvements in almost all of our top-selling products. We improved our leadership ranking by achieving the number-one position in the majority of the markets we serve, and we sustained our sound financial position by increasing our profitability and ending the year with more than \$20 billion in cash and investments.

We also strengthened our commitment to deliver differentiated value to customers and partners through our unique product and service offerings, while mapping them to their stated needs and priorities—productivity, cost savings, return on investment, and standard of living improvements. We are very proud of the progress we made in the area of customer satisfaction, achieving a 4.78 rating on a scale of one to five in our annual survey this year. As always, customer and partner success are the foundation of the Cisco culture. Throughout this Annual Report you will read stories from customers and partners describing how the power of the network has changed the way they work, live, play, and learn.

Overall, we are very proud of our achievements in fiscal 2003, and in terms of our financial metrics, with the obvious exception of revenue growth, we continued to achieve some of the best results in our company's history while maintaining a passionate focus on meeting the needs of our customers, partners, investors, and employees.

### **FISCAL 2003 PERFORMANCE**

For fiscal 2003, we showed consistent improvement in almost all categories of our operational and financial results. Fiscal 2003 revenue was \$18.9 billion, the same as in fiscal 2002. Fiscal 2003 net income on a generally accepted accounting principles (GAAP) basis was \$3.6 billion and earnings per share was \$0.50, as compared to fiscal 2002 GAAP net income of \$1.9 billion and earnings per share of \$0.25.

In a time period where profits are extremely important, we are very pleased with our year-over-year increase in GAAP net income of 89 percent for fiscal 2003. Cisco generated more than \$5.2 billion in cash from operations during fiscal 2003, as compared to our GAAP net income of \$3.6 billion, which illustrates the continued quality of our earnings.

**“WE CONTINUED TO ACHIEVE SOME OF THE BEST RESULTS IN OUR COMPANY’S HISTORY WHILE MAINTAINING A PASSIONATE FOCUS ON MEETING THE NEEDS OF OUR CUSTOMERS, PARTNERS, INVESTORS, AND EMPLOYEES.”**

In fiscal 2003, we continued to be very active with our share repurchase program. During fiscal 2003, we repurchased approximately \$6 billion or 424 million shares of our stock at an average price of \$14.10. Our cumulative purchases since the inception of the repurchase program were approximately \$7.8 billion, or 548 million shares at an average price of \$14.29, leaving a remaining approved repurchase amount of approximately \$5.2 billion at the end of fiscal 2003.

Moving forward, we have articulated three long-term financial priorities for Cisco. First, we must continue to seek out profitable growth opportunities while supporting Cisco’s current goal of 20 percent pro forma profit after tax margins. Second, we must continue to improve our productivity, as measured in terms of operating expense as a percentage of revenue. And finally, we must maintain our healthy and conservative balance sheet, including strong liquidity, low days sales outstanding (DSO), and inventory turns in line with our stated goals of 7 to 8 turns.

We continue to evaluate the most effective use of our cash. Today, we believe the share repurchase program, along with ongoing strategic investments and a strong cash balance, are in the best interest of our shareholders. As we enter into the next fiscal year, we are absolutely focused on providing an attractive return on investment to our shareholders, and we intend to do so while maintaining the highest standards of integrity, including accurate, timely, and transparent financial reporting.

**MARKET PERFORMANCE AND GROWTH OPPORTUNITIES**

In terms of Cisco’s business, we are focused on three broad areas to drive growth: our core technologies, routing and switching; the service provider market; and our Advanced Technology markets. While we participate in four key markets—enterprise, service provider, commercial, and consumer—the service provider area provides the greatest potential to utilize Cisco products and services. We believe our core technologies and Advanced Technologies will also drive growth through all of our key markets. We achieved solid results in fiscal 2003 within these areas, and have built a strong foundation for growth in fiscal 2004.

First, in routing and switching, we sustained our technology leadership through performance enhancements and by providing industry-leading solutions to our customers. During the fiscal year, we introduced many new products that combined significant performance enhancements with price reductions, ensuring a balance of customer success, Cisco’s profitability, and our leadership in the marketplace.

Second, we made important progress with our service provider customer base in all of our key geographies, despite a challenging capital spending environment. In a market that has contracted, we executed well and are pleased with our resource investment, expanding customer partnerships, and key technology and architectural wins. Our investments and commitments in the service provider market over the last two to three years, and the results they are yielding, continue to meet and exceed our expectations.



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And third, in terms of our Advanced Technology markets, we have identified six areas that we believe each have the potential to eventually create a \$1 billion revenue opportunity for Cisco, if we execute well and the market develops as we expect. The six Advanced Technologies we have identified are: optical, network security, IP telephony, wireless LAN, storage networking, and home networking. We increasingly see customer adoption of these technologies, and we are very comfortable with our leadership role in all six of the Advanced Technologies.

The business results we reported in fiscal 2003, including increases in profitability, market share position, and technology innovation, were the direct result of the decisions and investments we made 12 to 36 months ago. Similarly, the decisions and investments we are making today will position us for the next several years.

The bottom line on this is that you don't achieve the type of growth that Cisco has achieved in the past—and hopefully will in the future—without taking good business risks. We believe that the benefit of this strategy to our customers, shareholders, partners, and employees outweighs the risks.

Our customers recognize the power of the network, and as their businesses become healthier and their investments in networking increase, we believe that Cisco has never been better positioned to become the network evolution leader.

## **PARTNERSHIPS**

Successful partnerships are one of several key components of Cisco's overall growth strategy, in conjunction with internal development and acquisitions. By forming partnerships with best-in-class companies, Cisco is able to focus on what we do best—world-class networking solutions—while at the same time offering customers the end-to-end solutions they need. With the help of our partners, we can enter into new markets more quickly and efficiently, develop new solutions for our traditional markets, and deliver the highest-quality Cisco products and services to our customers.

Over the last year, we strengthened our alliances and entered into new key relationships that will help both Cisco and these companies succeed in the marketplace, including relationships with AT&T, Bell South, EDS, EMC, HP, Hitachi, IBM, and SBC, among others. We have entered into agreements to acquire six companies, Andiamo, AYR Networks, the business of Linksys, Okena, Psionic, and SignalWorks. These companies bring to Cisco both the technology and talent necessary to help us be successful in our core and Advanced Technology markets such as storage networking, home networking, security, and IP telephony.

## **CISCO COMMUNITY**

Cisco was founded on, and still thrives today in, a culture based on the principles of open communication, empowerment, trust, and integrity. These values remain at the forefront of our business decisions. We express these values through ethical workplace practices; philanthropic, community, and social initiatives; and the quality of our people.



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VICE CHAIRMAN OF THE BOARD

Cisco's culture requires that all employees, at every level of the organization, are committed to responsible business practices. Additionally, our business strategy incorporates our dedication to corporate citizenship, which includes our commitment to improving the global community in which we operate, empowering our workforce, and building trust in our company as a whole.

Giving back to the community is another integral part of our culture. In fiscal 2003, Cisco supported important community efforts such as the American Red Cross and the Second Harvest Food Bank. We also participated in several key global initiatives, including co-sponsorship of the Jordan Education Initiative, in partnership with His Majesty King Abdullah II of Jordan and the World Economic Forum. Our employees also continued to be active in the community through the Cisco Foundation and the Cisco Community Fellows Program.

We also strengthened our commitment to the very successful Cisco Networking Academy Program. This year, Cisco established its first Networking Academy in Afghanistan, where 105 students, 38 of whom are female, are learning the Internet technology skills necessary for success in the 21st century workforce. By combining education and the Internet, Cisco Networking Academies help students around the world learn the skills they need to join the Information Age and help their communities. In its sixth year, we have more than 10,000 academies in 152 countries with 421,000 students enrolled worldwide.

In summary, fiscal 2003 was about continuing our focus on the areas that we could influence and control while preparing for an industry recovery. We believe that as we continue to drive technology innovation, sustain and enhance our financial health, and strengthen our market leadership, Cisco is truly positioned to be not only a company that meets its stated goals, but will ultimately strive to exceed them.

On behalf of the Cisco Board of Directors, we would like to thank our employees, customers, partners, and shareholders for your continued confidence and for your support.

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