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Cisco Systems, Inc. Q3 FY03 Conference Call

May 6, 2003

GAAP Reconciliation

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During this presentation references to financial measures of the Company will include references to pro-forma financial measures. Cisco provides a complete reconciliation between GAAP and pro-forma financial information on our website at www.cisco.com in the “Investor Relations” section.

Click here for GAAP Reconciliation: http://www.cisco.com/go/gaap_recon

Cisco Forward-Looking Statements

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This presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of the Company. These projections or statements are only predictions. Actual events or results may differ materially from those in the projections or other forward-looking statements. Please see the Company's Annual Report to Shareholders and its filings with the SEC, including its most recent filings on Forms 10-K and 10-Q, each as it may be amended from time to time, for a discussion of important risk factors that could cause actual events or results to differ materially from those in the projections or forward-looking statements.

Q3FY03 Summary

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- Solid quarter for Cisco—**operational excellence** in a challenging environment
- **Continued execution on profitability**—profit after tax margins above 20%
- **Solid balance sheet** with over \$20B in cash and investments, healthy inventory turns and DSO
- Successful momentum in **advanced technologies**
- **Expanded market opportunity** through strategic partnerships

Profits

Q3FY03

***Operational
Excellence in
Five Focus Areas***

Technology
Innovation

Cash Flow

Profitable
Market Share
Gains

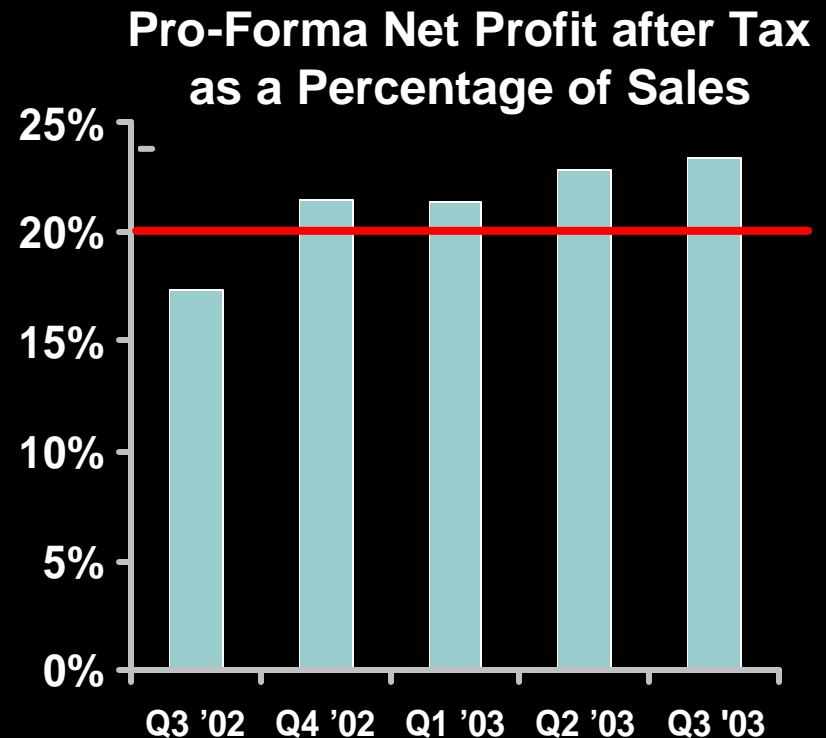
Productivity

Q3FY03 Financial Highlights

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Cisco Continued to Exceed Business Model Targets with Pro Forma Profits of 23.4% of Revenue in Q3FY03

- Pro-forma net income—**\$1.1 B**
- Pro-forma EPS—**\$.15**
- Cash flow from operations—**\$ 1.3B**
- Annualized Revenue per Employee—**\$532K**



Agenda

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- **Financial Overview**
- Quarterly Overview
- What Went Well and Areas of Concern
- Commonly Asked Questions
- Macro/Cisco Guidance

Q3FY03 Net Sales

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- **Net sales of \$4.6 B**
 - Product sales approx. \$3.8B
 - Service sales approx. \$819M
- **Revenue Categories:**

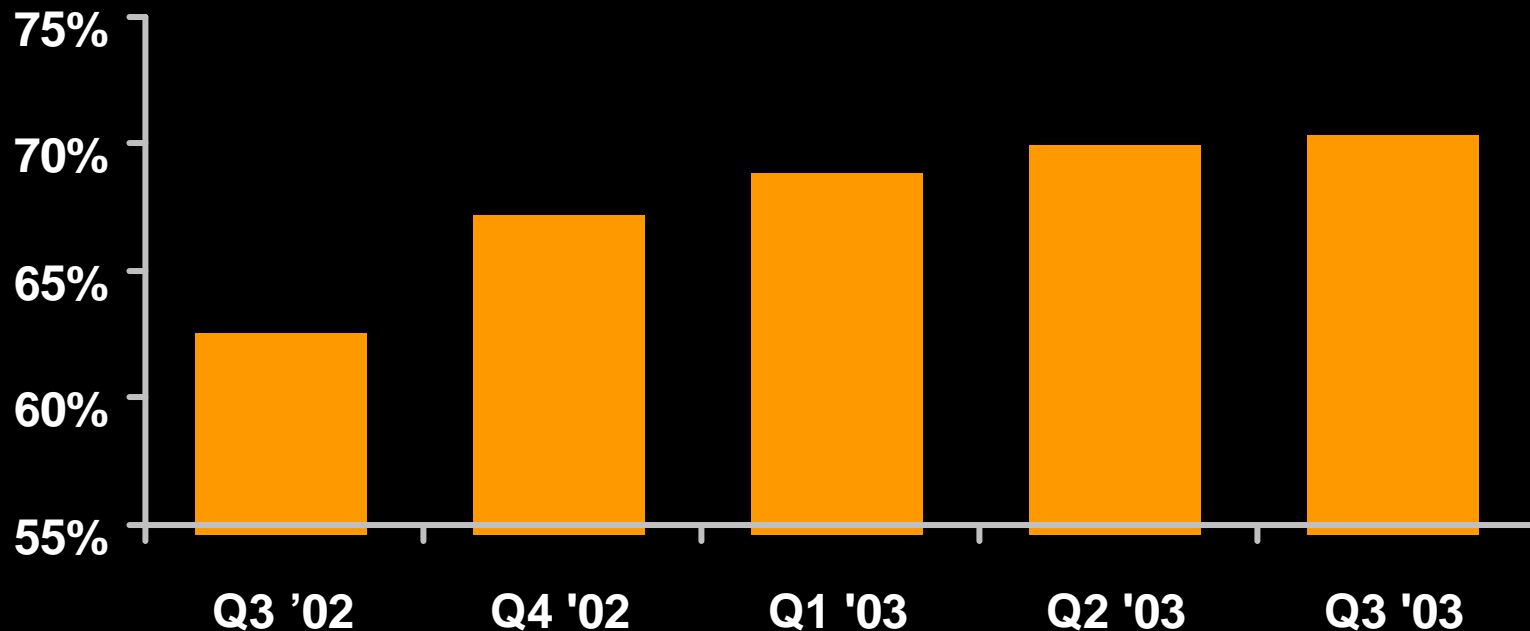
Category	Q3 FY '02	Q2 FY '03	Q3 FY '03
Routers	30%	26%	27%
Switches	40%	41%	41%
Access	5%	5%	4%
Other	8%	11%	10%
Services	17%	17%	18%

Q3FY03 Gross Margins

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**Continued Improvement in Pro Forma Gross Margins—
Increasing to 70.8% in Q3 from 70.4% in Q2**

Pro-Forma Gross Margin



Reconciliation of GAAP to Pro Forma EPS

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	Q3FY02	Q2FY03	Q3FY03
GAAP EPS	\$0.10	\$0.14	\$0.14
<i>Reconciling items:</i>			
Amortization of Purchased Intangibles	\$0.01	\$0.01	\$0.01
Excess inventory (benefit)	—	—	—
Loss on Public Equity Investments	—	—	—
Other *	—	—	—
Pro Forma EPS	\$0.11	\$0.15	\$0.15

* Payroll taxes on stock options and deferred compensation

Q3FY03 Pro-Forma Income Statement

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***Cisco's Pro-Forma Net Income
Up Slightly, as Margins Increased
and Operating Expenses Declined***

\$M	Q3 '02	Q2 '03	Q3 '03
Net Sales	4,822	4,713	4,618
Gross Margins	63.1%	70.4%	70.8%
Operating Expenses	2,027	1,942	1,903
Operating Income	1,014	1,375	1,366
Operating Margins	21.0%	29.2%	29.6%
Net Income	838	1,079	1,081
Pro-forma (Diluted)	.11	.15	.15

Q3FY03 Cash Flow from Operations

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***Cisco Has \$20.3B
in Cash and Investments***

- Cash flow from operations of \$1.3B in Q3
- Uses of cash may include:

Stock repurchase—approx. \$2B repurchased in Q3
approx. \$6.6B remaining in program

Strategic minority investments

Potential acquisitions

Funding financing activity in Cisco Capital

Note: Cash flow statement available via press release and website

Stock Repurchase Program

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Event	Amount Purchased (M)	Number of Shares
Repurchase Program Approved for \$3B		
Q1 FY '02	\$350	27M
Q2 FY '02	\$251	13M
Q3 FY '02	\$351	21M
Q4 FY '02	\$902	63M
Repurchase Program Increased by \$5B		
Q1 FY '03	\$1,077	88M
Q2 FY '03	\$1,475	105M
Repurchase Program Increased by \$5B		
Q3 FY '03	\$1,997	148M

Total shares repurchased since inception **465M**

Total amount invested since inception **\$6.4B**

Remaining funds in repurchase program **\$6.6B**

Q3FY03 Balance Sheet

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***Strong Balance Sheet Performance,
with 56% of Cisco's Assets in Cash and Investments***

\$M	Q3FY02	Q2FY03	Q3FY03
<u>Assets:</u>			
Cash and Investments	21,061	21,197	20,316
Accounts Receivable	990	1,107	1,157
Inventory	869	775	765
Property and Equipment	4,002	3,890	3,805
Other	10,204	10,377	10,213
Total Assets	37,126	37,346	36,256
<u>Liabilities and Equity:</u>			
Liabilities	4,858	5,144	4,841
Deferred Revenue	3,833	3,737	3,759
Minority Interest	16	10	11
Shareholders' Equity	28,419	28,455	27,645
Total Liabilities and Equity	37,126	37,346	36,256

Q3FY03 Key Ratios

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	FY02		FY03		
	Q3	Q4	Q1	Q2	Q3
Cash and Investments (\$M)	21,061	21,456	21,188	21,197	20,316
Accounts Receivable (\$M)	990	1,105	1,109	1,107	1,157
Days Sales Outstanding	19	21	21	21	23
Net Inventory (\$M)	869	880	828	775	765
Inventory Turns	7.5	7.1	7.0	7.0	7.0
Revenue (\$M)	4,822	4,829	4,845	4,713	4,618
Sequential Growth %	0%	0%	0%	(3%)	(2%)
Deferred Revenue (\$M)	3,833	3,892	3,751	3,737	3,759
Headcount	35,935	35,566	35,278	34,987	34,501
Sequential Growth %	(2%)	(1%)	(1%)	(1%)	(1%)

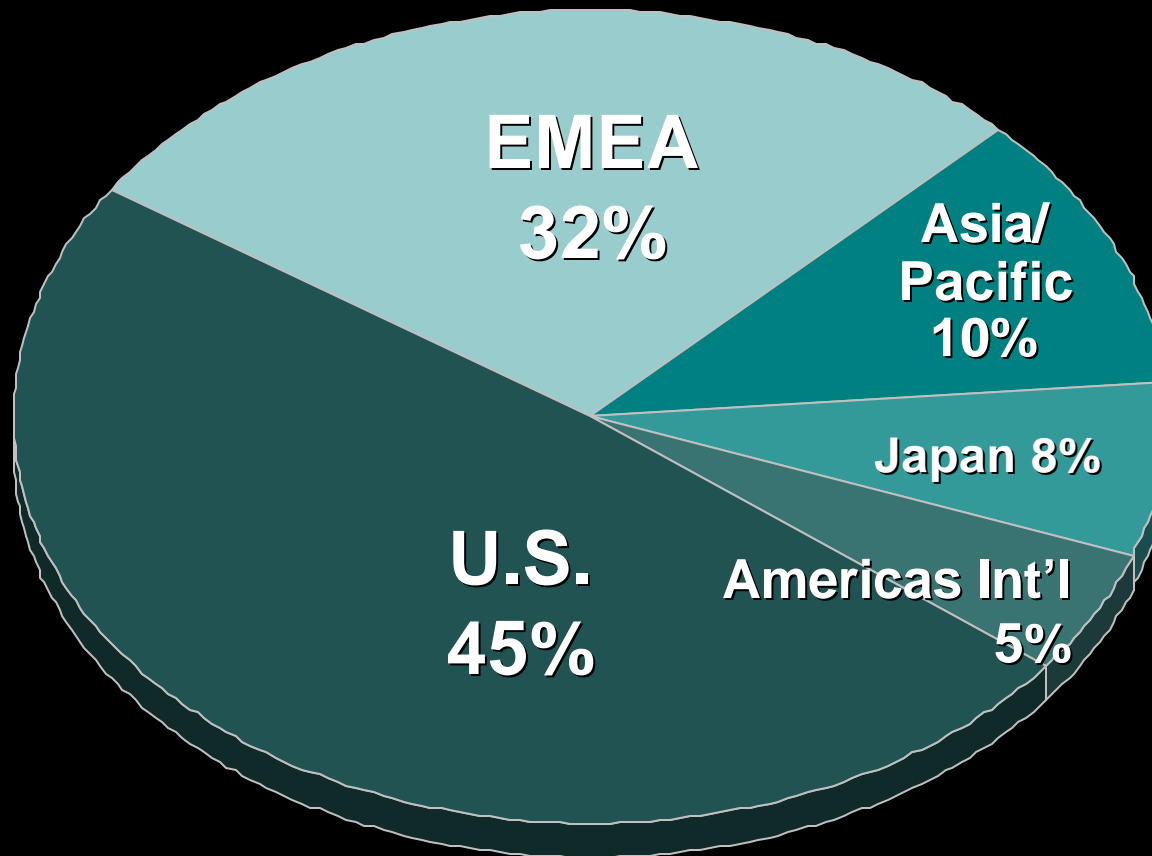
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- Financial Overview
- **Quarterly Overview**
- What Went Well and Areas of Concern
- Industry Update
- Macro/Cisco Guidance

Q3FY03 Geographic Product Bookings

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Advanced Technologies & Markets

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*Today, 9 advanced technologies –
stretch goal of 12*

Storage

- Successful product momentum
- Successful partner momentum

Wireless LANs

- Orders increase sequentially
- Continue to gain market share

IP Telephony

- Orders increase sequentially
- Sold over 1.4m phones
- New product introductions

Cisco and Linksys

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- Anticipated **closing in Q4 2003**
- **Orders in line with expectations – \$120M in Q3CY03**
- Expanding into **growing consumer space**
- **Enhanced solutions** for Service Providers

Low-end competition

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- **Service and support** drive customer decision making
- **Investment protection** is key
- Competition is healthy – but not surprising
- **Continued success** in low-end routing and switching

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Guidance Reconciliation for Q4FY03

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- **Historical results suggest GAAP EPS \$.01 lower than pro-forma EPS**
- **Difference due to charges related to completed acquisitions, recorded as operating expenses, net of tax**
- **No other differences between GAAP and pro forma**
- **Guidance assumes no additional acquisitions, asset impairments, restructuring or other unanticipated events, which may or may not be significant**

Pro Forma Guidance for Q4FY03

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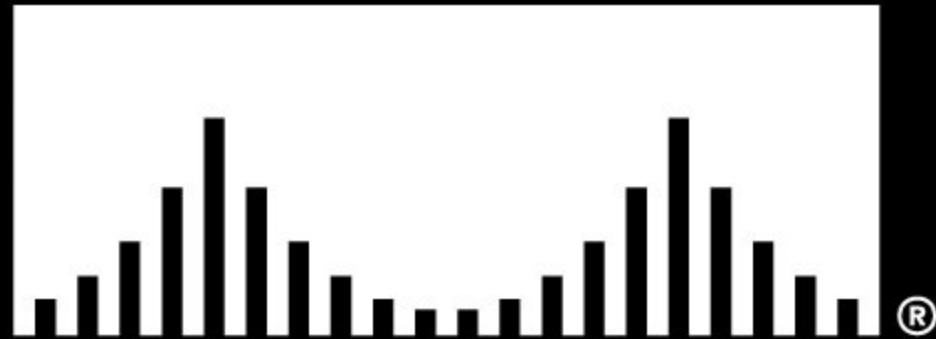
- Revenue: **flat**
- Gross Margins: **68-70%**
- Operating Expenses: **flat to up 1-2%**
- Other Income and Expense: **flat**
- Tax Rate: **28%**
- Share Count: **down slightly**
- Cash Flow: **\$300-400M per month** at current revenue levels

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EMPOWERING THE
INTERNET GENERATION