

Cisco Systems, Inc. Q4 FY '03 Conference Call

August 5, 2003

GAAP Reconciliation and Forward-Looking Statements

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GAAP RECONCILIATION

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.

http://www.cisco.com/go/gaap_recon

FORWARD-LOOKING STATEMENTS

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.

Q4 and FY 2003 Summary

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- **Solid year for Cisco: strong year-over-year growth in Net Income and EPS**
- **Continued execution on profitability: profit after tax margins above 20%**
- **Solid gross margins, while accomplishing both price reductions and price/performance improvements**
- **Strong balance sheet with over \$20B in cash and investments, healthy inventory turns and DSO**
- **Good momentum in core markets and advanced technologies**
- **Continued traction in Service Provider**



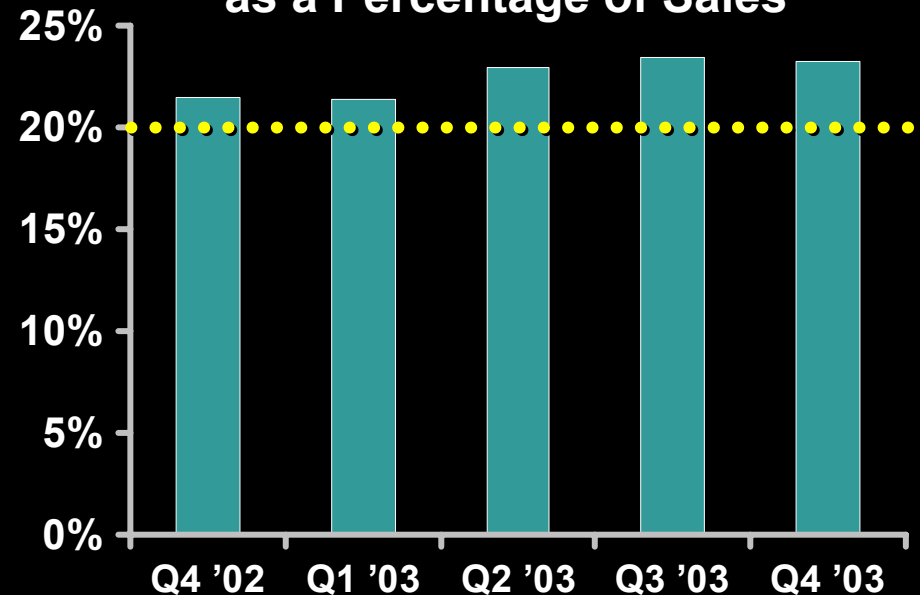
Q4 and FY 2003 Financial Highlights

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FY2003 GAAP Net Income up 89% year-over-year
Q4FY03 GAAP Net Income up 27% year-over-year

- **FY2003 GAAP Net Income: \$3.6B**
- **Q4FY03 GAAP Net Income: \$982M**
- **FY2003 Pro-forma Net Income: \$4.3B**
- **Q4FY03 Pro-Forma Net Income: \$1.09B**
- **Q4FY03 GAAP EPS: \$0.14**
- **Q4FY03 Pro-forma EPS: \$0.15**

**Pro-Forma Net Profit after Tax
as a Percentage of Sales**



Agenda

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- **Financial Overview**
- **Quarterly Overview**
- **Growth Opportunities**
- **What Went Well and Areas of Concern**
- **Guidance**

Q4 FY2003 Net Sales

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- **Net sales of \$4.7B**

Product sales approx. \$3.9B

Service sales approx. \$840M

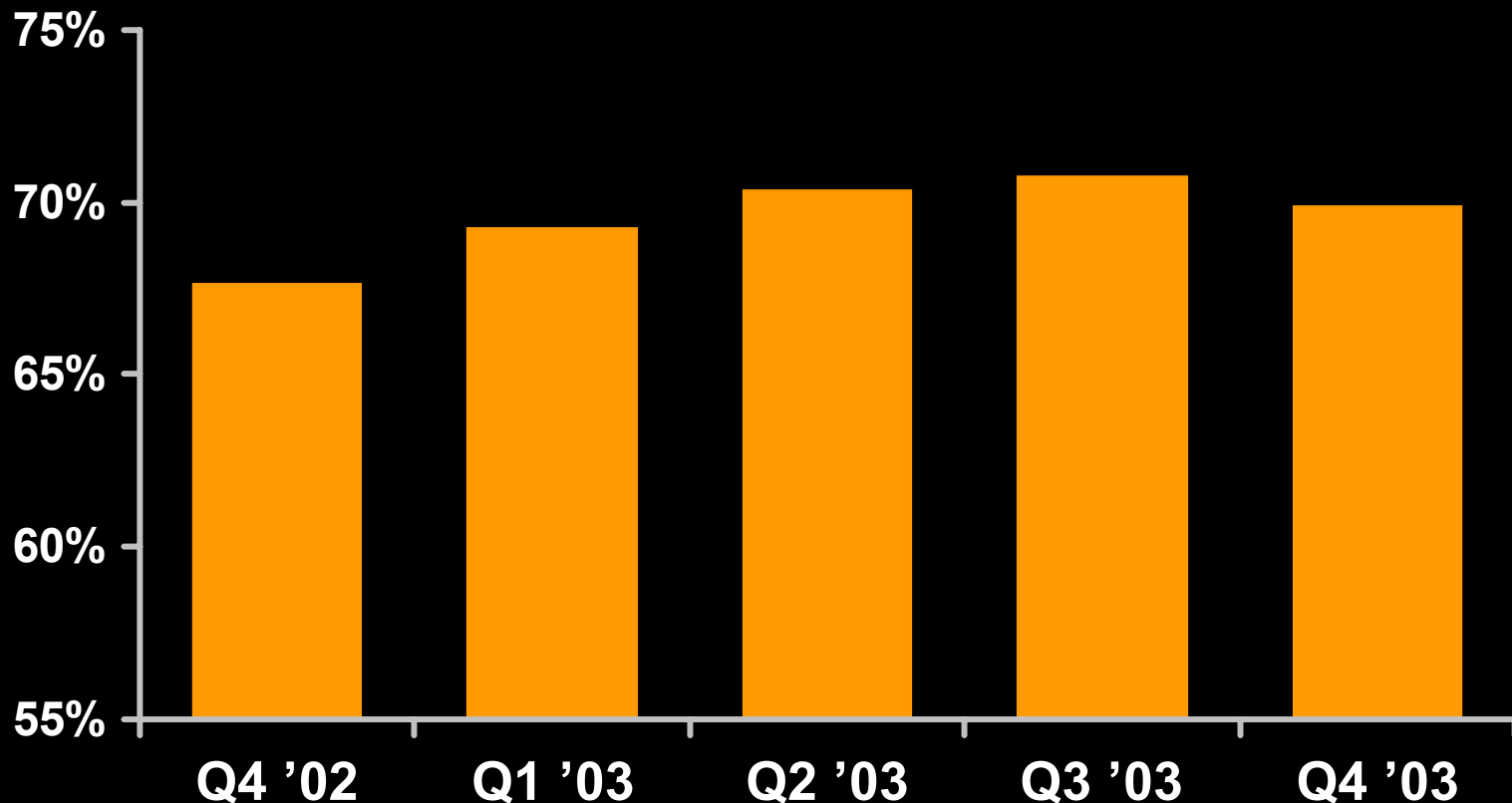
- **Revenue categories:**

Category	Q4 FY '02	Q3 FY '03	Q4 FY '03
Routers	26%	26%	26%
Switches	44%	40%	39%
Access	5%	5%	5%
Other	8%	11%	12%
Services	17%	18%	18%

Q4 FY2003 Pro Forma Gross Margins

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***Pro Forma Gross Margins—
Decline slightly to 69.9% in Q4 from 70.8% in Q3***



Reconciliation of GAAP to Pro Forma EPS

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	Q4 FY '02	Q3 FY '03	Q4 FY '03
GAAP EPS	\$0.10	\$0.14	\$0.14
<i>Reconciling items:</i>			
Amortization of Purchased Intangibles	\$0.04	\$0.01	\$0.01
Excess inventory (benefit)	—	—	—
Loss on Public Equity Investments	—	—	—
Other *	—	—	—
Pro Forma EPS	\$0.14	\$0.15	\$0.15

* Payroll taxes on stock options and deferred compensation

Q4 FY2003 Pro-Forma Income Statement

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***Pro-Forma Net Income Up Slightly
while Maintaining Healthy Operating Model***

\$M	Q4 '02	Q3 '03	Q4 '03
Net Sales	4,829	4,618	4,702
Gross Margins	67.7%	70.8%	69.9%
Operating Expenses	1,977	1,903	1,945
Operating Income	1,293	1,366	1,344
Operating Margins	26.8%	29.6%	28.6%
Net Income	1,039	1,081	1,089
Pro-forma EPS (Diluted)	\$0.14	\$0.15	\$0.15

Q4 and FY 2003 Cash Flow from Operations

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Cisco Has \$20.7B in Cash and Investments

- Cash flow from operations of \$1.5B in Q4, \$5.2B for the year
- Uses of cash may include:

**Stock repurchase: approx. \$1.4B repurchased in Q4,
for a total of \$6B during FY '03
approx. \$5.2B 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
Q4 FY '03	\$1,435	83M
<i>Total shares repurchased since inception</i>	548M	
<i>Total amount invested since inception</i>	\$7.8B	
<i>Remaining funds in repurchase program</i>	\$5.2B	

Q4 and FY 2003 Balance Sheet

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

\$M	Q4 FY '02	Q3 FY '03	Q4 FY '03
<u>Assets:</u>			
Cash and Investments	21,456	20,316	20,652
Accounts Receivable	1,105	1,157	1,351
Inventory	880	765	873
Property and Equipment	4,102	3,805	3,721
Other	10,252	10,213	10,510
Total Assets	37,795	36,256	37,107
<u>Liabilities and Equity:</u>			
Liabilities	5,232	4,841	5,260
Deferred Revenue	3,892	3,759	3,808
Minority Interest	15	11	10
Shareholders' Equity	28,656	27,645	28,029
Total Liabilities and Equity	37,795	36,256	37,107

Q4 and FY 2003 Key Ratios

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	FY02 Q4	FY03			
		Q1	Q2	Q3	Q4
Cash and Investments (\$M)	21,456	21,188	21,197	20,316	20,652
Accounts Receivable (\$M)	1,105	1,109	1,107	1,157	1,351
Days Sales Outstanding	21	21	21	23	26
Net Inventory (\$M)	880	828	775	765	873
Inventory Turns	7.1	7.0	7.0	7.0	6.8
Revenue (\$M)	4,829	4,845	4,713	4,618	4,702
Sequential Growth %	0%	0%	(3%)	(2%)	2%
Deferred Revenue (\$M)	3,892	3,751	3,737	3,759	3,808
Headcount	35,566	35,278	34,987	34,501	34,466
Sequential Growth %	(1%)	(1%)	(1%)	(1%)	0%

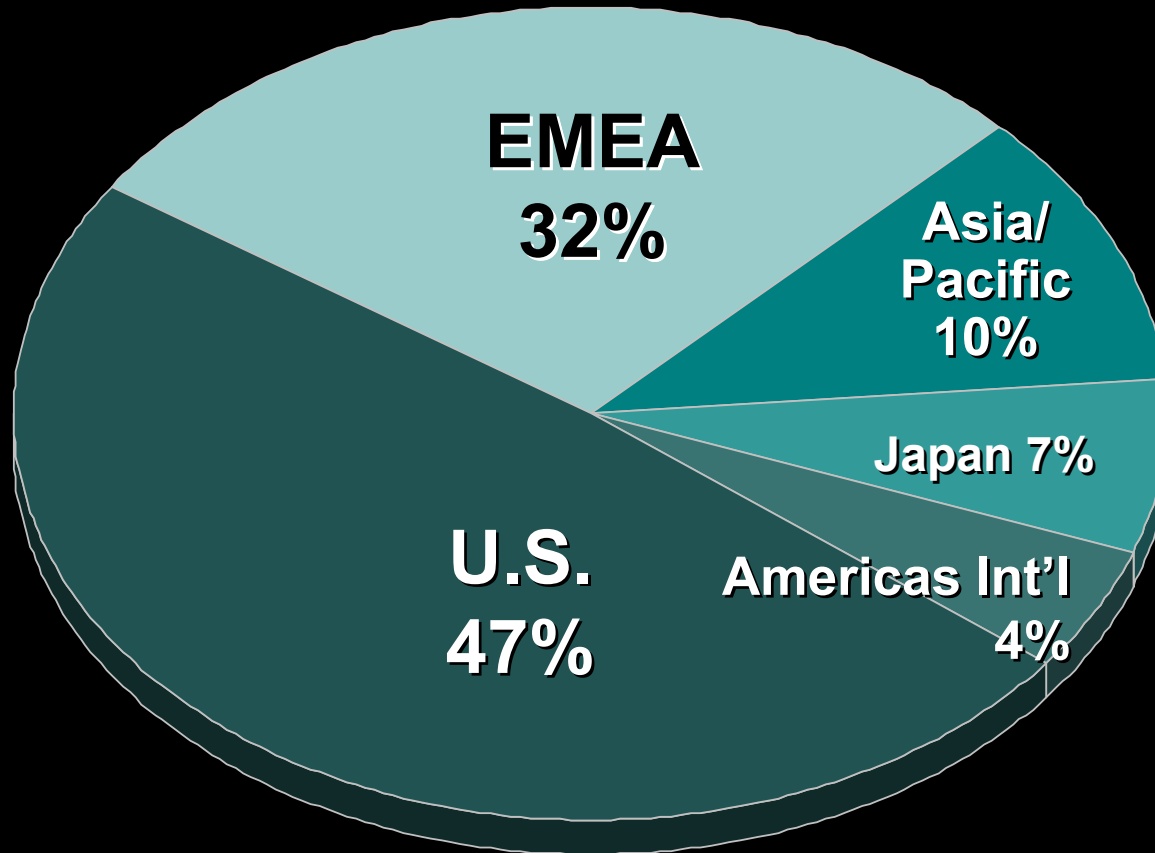
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Q4 FY '03 Geographic Product Bookings

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Growth Opportunities

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- **Core Markets: Routing and Switching**

- Solid sequential order growth in high-end routing and switching

- Shipped 1-millionth 10/100/1000 port in Q4

- **Service Provider**

- Continued progress in partnerships

- Sequential orders up in mid-single digits

- **Advanced Technology Markets**

- 20%+ sequential order growth

Past Investment Decisions

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- **U.S. Federal Government**

Solid Q4, double-digit sequential growth

US Federal was 20% of total US Enterprise and Federal orders

- **Cisco's Advanced Services**

FY03 revenue growth over 20% to \$400M

20% improvement in productivity

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Guidance Reconciliation for Q1 FY '04

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- **FIN 46 requires accounting of Andiamo as if it had been consolidated since initial investment in April 2001. The Q1FY04 one-time, non-cash charge will be a cumulative effect of \$400M, or \$0.06 per share.**
- **We will also have ongoing amortization of purchased intangible assets and deferred compensation costs, estimated for Q1FY04 at \$0.02 per share, including Linksys, recorded as GAAP operating expenses.**
- **As a result of these two items, we anticipate Q1FY04 GAAP EPS will be \$0.08 lower than pro-forma EPS.**
- **Guidance assumes no additional acquisitions, asset impairments, change in Andiamo's valuation, restructuring or other unanticipated events, which may or may not be significant.**

Pro Forma Guidance for Q1 FY2004

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- **Revenue:** up slightly, 2-4% sequentially
- **Gross Margins:** approximately 67–69%
- **Operating Expenses:** up 2-3% sequentially
- **Interest and Other Income:** approx. \$100M
- **Tax Rate:** 28%
- **Share Count:** flat
- **Cash Flow:** \$300-400M per month at current revenue levels

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