



CISCO SYSTEMS, INC. Q4 FY 2005 CONFERENCE CALL

August 9, 2005

GAAP Reconciliation and Forward-Looking Statements

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GAAP RECONCILIATION

During this presentation references to financial measures of Cisco 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 under “About Cisco” in the “Investor Relations” section.

www.cisco.com/go/gaap_recon

> FORWARD-LOOKING STATEMENTS

This presentation contains projections and other forward-looking statements regarding future events or the future financial performance of Cisco, including future operating results. These projections and statements are only predictions. Actual events or results may differ materially from those in the projections or other forward-looking statements. Please see Cisco’s [filings with the SEC](#), including its most recent filings on Forms 10-K and 10-Q, for a discussion of important risk factors that could cause actual events or results to differ materially from those in the projections or other forward-looking statements.

Q4 FY 2005 Operational Excellence

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Q4 FY 2005 Summary

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- **Record GAAP and Pro Forma Net Income**
- **Continued execution on profitability**
 - ❖ Quarterly revenue increased sequentially 6.4%
 - ❖ 13th consecutive quarter of pro forma net income, as a percentage of revenue, above 20% -- 7th consecutive quarter above 24%
- **Strong financial metrics**
 - ❖ Product gross margins of 68.4%
 - ❖ Cash flow from operations of \$2.4B
 - ❖ Approximately \$16.1B in cash & investments
 - ❖ Book to bill greater than one
- **Solid productivity metrics**
 - ❖ Pro forma operating expenses at 35.9% of revenue

Fiscal Year 2005 Summary

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- **Record GAAP and Pro Forma Net Income**
 - ❖ GAAP net income of \$5.7B - up approx. 30.4% Y/Y
 - ❖ GAAP EPS of \$0.87 – up 40.3% Y/Y
 - ❖ Pro forma net income of \$6.1B - up approx. 13.5% Y/Y
 - ❖ Pro forma EPS of \$0.92 - up 21.1% Y/Y
- **Product gross margins of 67.6%**
- **Pro forma operating expenses at 35.6% of revenue**

Q4 FY 2005 Net Income

Q4 FY05 Pro Forma Net Income up 10% year-over-year

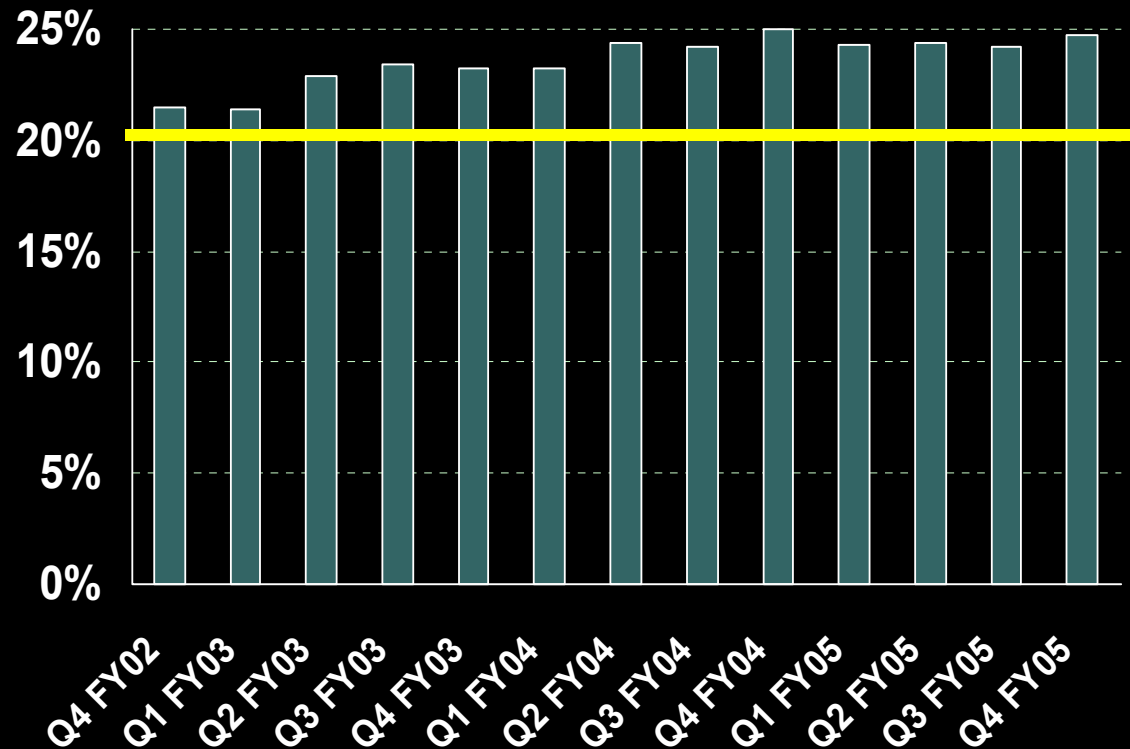
Q4 FY05 EPS

- GAAP: \$0.24
- Pro Forma: \$0.25

Q4 FY05 Net Income

- GAAP: \$1.5B
- Pro Forma: \$1.6B

**Pro Forma Net Income
as a Percentage of Revenue**



Agenda

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- **Financial Overview**
- **Quarterly Overview**
- **What Went Well & Areas of Concern**
- **Guidance**

Q4 FY 2005 Net Sales of \$6.6B

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	Q4 FY05	Y/Y Growth
Routers	\$1.48B	3%
Switches	\$2.66B	8%
Advanced Technologies	\$1.16B	27%
Other	\$229M	11%
Services	\$1.06B	15%

Q4 FY 2005 Percentage of Net Sales

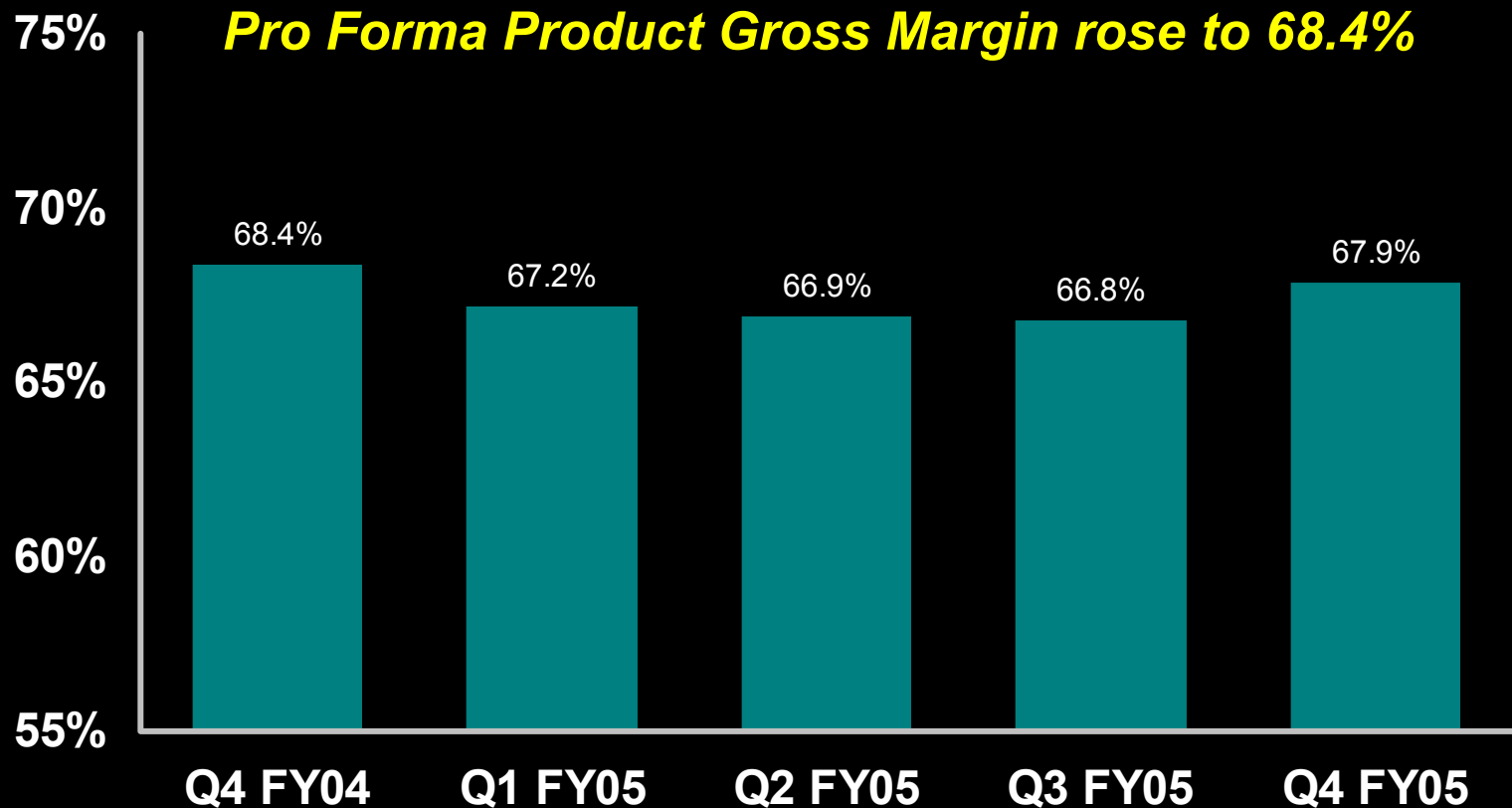
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	Q4 FY04	Q3 FY05	Q4 FY05
Routers	24%	23%	22%
Switches	41%	40%	40%
Advanced Tech	16%	18%	18%
Other	3%	3%	4%
Services	16%	16%	16%

Q4 FY 2005 Pro Forma Gross Margin

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Total Pro Forma Gross Margin 67.9% in Q4



Q4 FY 2005 Pro Forma Income Statement

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Q4 FY05 Pro Forma Net Profit Margin of 24.7%
Fiscal Year Pro Forma Net Profit Margin of 24.4%

\$M	Q4 FY04	Q3 FY05	Q4 FY05
Net Sales	5,926	6,187	6,581
Gross Margin	68.4%	66.8%	67.9%
Operating Expenses	2,134	2,207	2,365
Operating Income	1,921	1,928	2,103
Net Income	1,480	1,496	1,626
Net Income (% of Revenue)	25.0%	24.2%	24.7%
EPS (diluted)	\$0.21	\$0.23	\$0.25

Reconciliation of GAAP to Pro Forma Net Income

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\$M	Q4 FY04	Q3 FY05	Q4 FY05	FY 2004	FY 2005
GAAP Net Income	\$ 1,380	\$1,405	\$1,540	\$4,401	\$ 5,741
Reconciling Items:					
In-process research & development	--	6	6	3	26
Payroll tax on stock option exercises	4	3	5	16	12
Stock-based compensation related to acquisitions and investments	56	47	39	244	165
Amortization of purchased intangible assets	60	54	56	242	227
(Gain) loss on publicly traded equity securities	--	--	--	(85)	(53)
Income tax effect	(20)	(19)	(20)	(51)	(61)
Cumulative effect of accounting change, net of tax	--	--	--	567	--
Pro Forma Net Income	\$1,480	\$1,496	\$1,626	\$5,337	\$6,057

Q4 FY 2005 Net Income

Q4 FY05 Pro Forma Net Income up 10% year-over-year

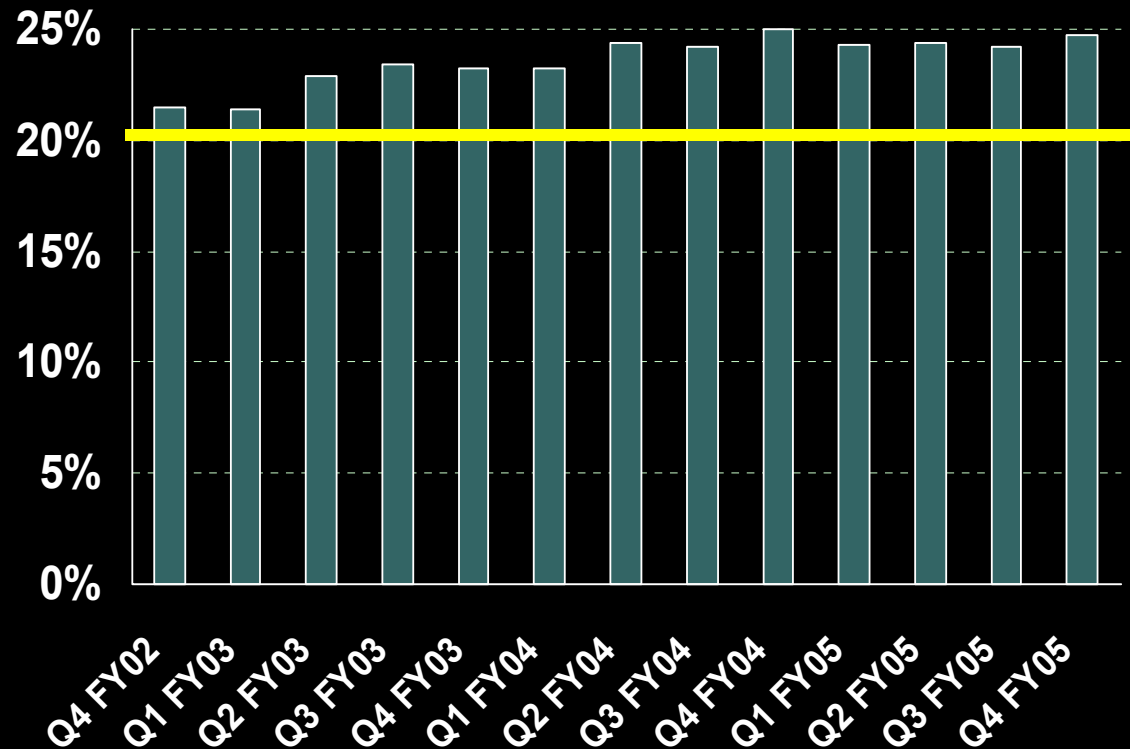
Q4 FY05 EPS

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Q4 FY05 Net Income

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- Pro Forma: \$1.6B

**Pro Forma Net Income
as a Percentage of Revenue**



Q4 FY 2005 Cash Flow from Operations

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Cisco has \$16.1B in Cash & Investments

- Cash flow from operations of approx. \$2.4B in Q4
- Uses of cash may include:

**Stock repurchase: approx. \$2.5B repurchased in Q4;
approx. \$27.2B since inception**

Strategic investments

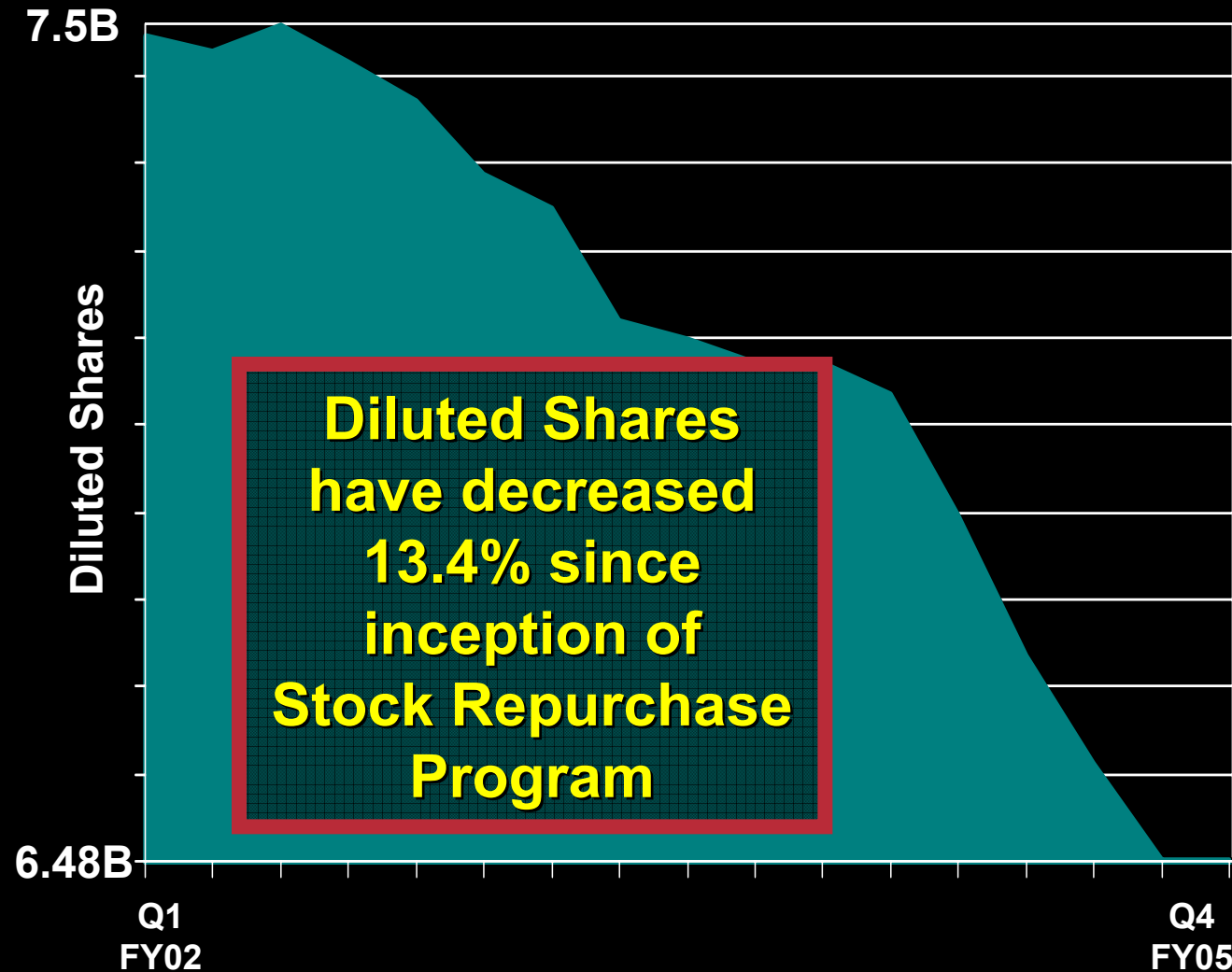
Acquisitions

Funding financing activity in Cisco Capital

Cash flow statement available via press release and website

Weighted Average Diluted Shares

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1.5B
Shares
Repurchased
vs.
288M
Options
Exercised

5.2X

Share Repurchase Program

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Event	Amount Purchased (M)	Number of Shares (M)	Avg Price Per Share
Repurchase Program Approved for \$3B			
FY 2002 Purchases	\$1,854	124	\$14.93
Repurchase Program Increased by \$10B			
FY 2003 Purchases	\$5,984	424	\$14.10
Repurchase Program Increased by \$12B			
FY 2004 Purchases	\$9,080	408	\$22.30
Repurchase Program Increased by \$10B			
FY 2005 Purchases	\$10,235	540	\$18.95

Total amount repurchased since inception

\$27.2B

Total shares repurchased since inception

1.5B

Average price per share since inception

\$18.15

Remaining funds in repurchase program

\$7.8B

Q4 FY 2005 Key Financial Measures

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	Q4 FY04	Q1 FY05	Q2 FY05	Q3 FY05	Q4 FY05
Cash and Investments (\$M)	19,267	17,727	16,525	16,149	16,055
Accounts Receivable (\$M)	1,825	1,792	2,278	2,241	2,216
Days Sales Outstanding	28	27	34	33	31
Inventory (\$M)	1,207	1,210	1,255	1,280	1,297
Inventory Turns	6.4	6.5	6.5	6.5	6.6
Revenue (\$M)	5,926	5,971	6,062	6,187	6,581
Y/Y Growth %	26%	17%	12%	10%	11%
Sequential Growth %	5%	1%	2%	2%	6%
Deferred Revenue (\$M)	4,502	4,261	4,647	4,816	5,042
Headcount	34,371	35,086	35,962	37,050	38,413

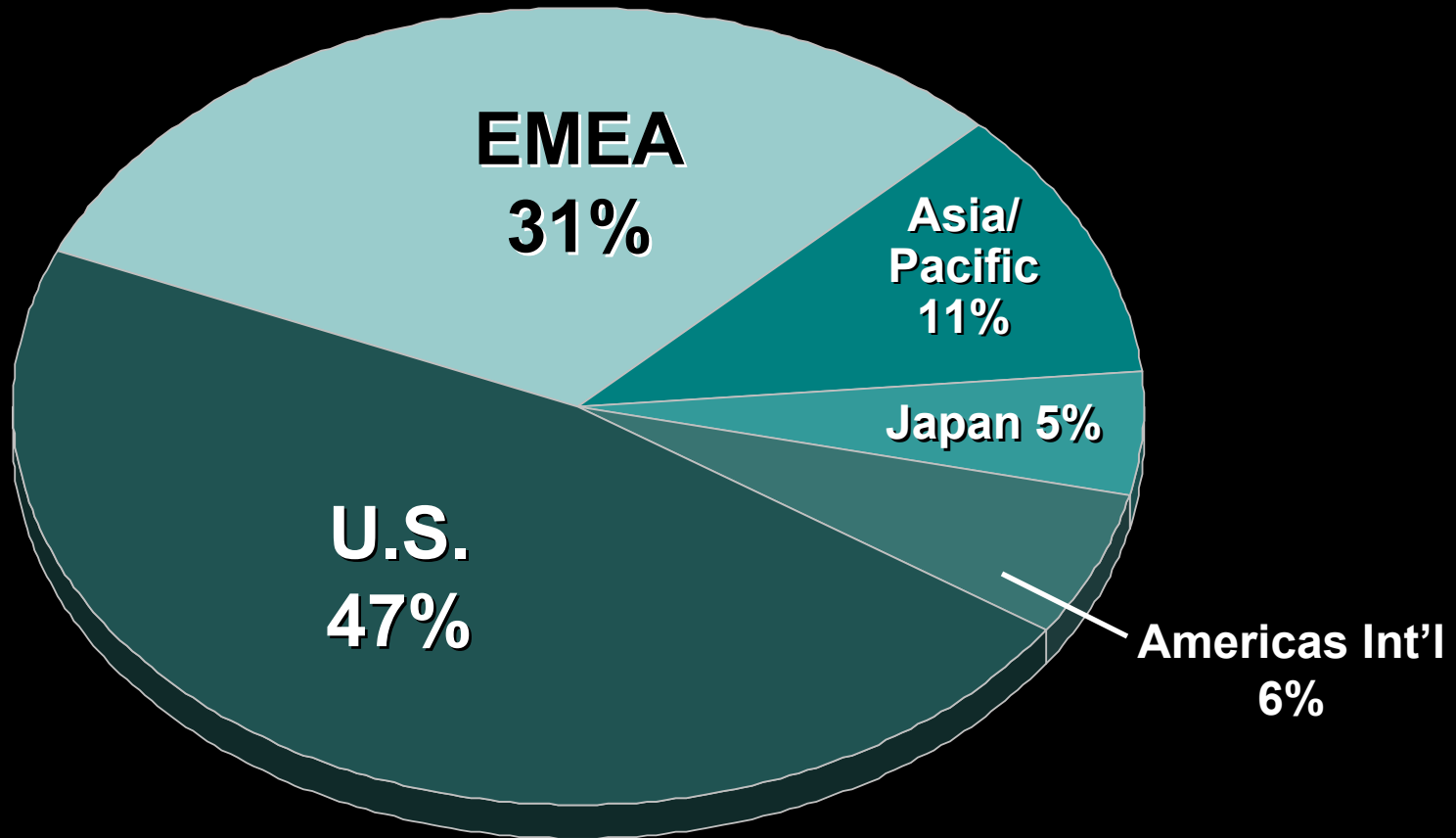
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- Financial Overview
- **Quarterly Overview**
- What Went Well and Areas of Concern
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Q4 FY 2005 Geographic Product Orders

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Agenda

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- Financial Overview
- Quarterly Overview
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What Went Well – Q4 FY05

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- **Continued balance across geographies, products and customer segments – our competitive advantage**
- **Continued strength in advanced technologies, commercial market segment and seasonally strong quarter for enterprise market segment**
- **Market share momentum in almost every category of advanced technologies**

Enterprise IP Communications orders grew approximately 50% Y/Y

Security orders grew approximately 25% Y/Y

Wireless LAN orders grew approximately 25% Y/Y

Networked home orders grew mid-30s Y/Y

Storage orders grew low 40s Y/Y

Optical orders grew high teens Y/Y

- **Orders growing faster than revenue in Advanced Technologies**
- **Solid financial performance**
- **Switching orders very solid**
- **Leadership evolutionary changes**

Areas of General Concern

- **Continued swings in global economic activity and therefore capital spending**
- **Expect expanding wave of low price competitors from Asia**
- **Opportunity to invest, including hiring creates upfront expense**
 - Short term payback and long-term benefits expected if executed right and elasticity continues to be reasonably broad
- **Slowing activity in terms of Y/Y growth in US Federal**
- **GDP continues to be a good indicator for our traditional business**
 - Should be combined with additional opportunities from advanced technologies, the service provider and commercial market segments and potential market share gains

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Macro Guidance for FY 2006

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- **Continued investments for growth at beginning of the year**
- **Anticipated increase in revenue in second half of the year, reflecting seasonality**
- **More quarterly variation in the relationship between revenue & operating income**
- **Consider quarterly order growth in Q1 & Q2 FY06 to gauge actual growth rate**
- **We anticipate orders will grow faster than revenue on a Y/Y basis in Q1 & Q2 FY06**
- **We will provide order growth information during Q1 & Q2 FY06**

Detailed Guidance for FY 2006 and Q1 FY 2006

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- **In recent quarters, published estimates have regularly exceed our guidance**
- **Long stated desire to not let expectations get ahead of our ability to deliver results**
- **Urge analysts and investors to take full account of our guidance and be conservative in modeling our future performance**
- **When ranges are given, we believe not all metrics will be at the optimal end of each range in any given quarter or fiscal year**
- **For example, if our revenue is at the higher end of the guidance we provide, our operating expenses most likely would also be higher**

Pro Forma Guidance for FY 2006

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- **Cisco's long term revenue growth rate over the next few years should be 10-15% annually**
- **Opportunity to grow product orders in the 10-15% range for FY 2006**
- **Expect revenue growth at least 10-12% for FY 2006**
- **Total gross margins between 66-67%**
- **Expect operating expenses will trend up 5-6% over first half of FY 2006. Full year operating expenses expected at approximately 36% of revenue**
- **Other income & expenses \$500-600 million**
- **Tax rate continues to be 28%**
- **Expect to continue our share buyback program and continue to model a reduction of 50 million shares per quarter**

Pro Forma Guidance for Q1 FY 2006

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- **PRODUCT ORDER GROWTH:** approximately 11-15% Y/Y
- **Q1 REVENUE:** up approximately 10% Y/Y
- **GROSS MARGIN:** approx. 67%; slightly above or slightly below
- **OPERATING EXPENSES:** approximately 37% of revenue
- **OPERATING INCOME:** range of 30% of revenue
- **INTEREST AND OTHER INCOME:** approximately \$140M
- **TAX RATE:** 28%
- **SHARE COUNT:** Down approximately 50 million shares
- **CASH FLOW FROM OPERATIONS:** \$300M–\$600M per month at current revenue levels

GAAP Reconciliation Guidance for Q1 and FY 2006

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- **Before the impact of the adoption of FAS 123(R), we anticipate that Q1 FY 2006 GAAP EPS will be 1-2 cents per share lower than pro forma EPS, due to ongoing amortization of purchased intangible assets and stock-based compensation costs arising from various purchase acquisitions and investments**
- **Currently anticipate Q1 FY 2006 GAAP EPS will be an additional 3-4 cents per share lower due to the adoption of FAS 123(R)**
- **Total potential adjustment of 4-6 cents to pro forma EPS for Q1 FY 2006**
- **For FY 2006, we expect the impact of stock options expensing will be an adjustment of between 12-14 cents to our pro forma EPS, giving a total FY 2006 adjustment of 16-22 cents**
- **These charges will be reported in the individual line items on the income statement and will be included in the GAAP financial statements only**
- **Guidance assumes no additional acquisitions, asset impairments, restructuring or other unanticipated events which may or may not be significant**

Forward-Looking Statements

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