

March, 2006

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Best Practices and Lessons Learned in moving to a Converged Network

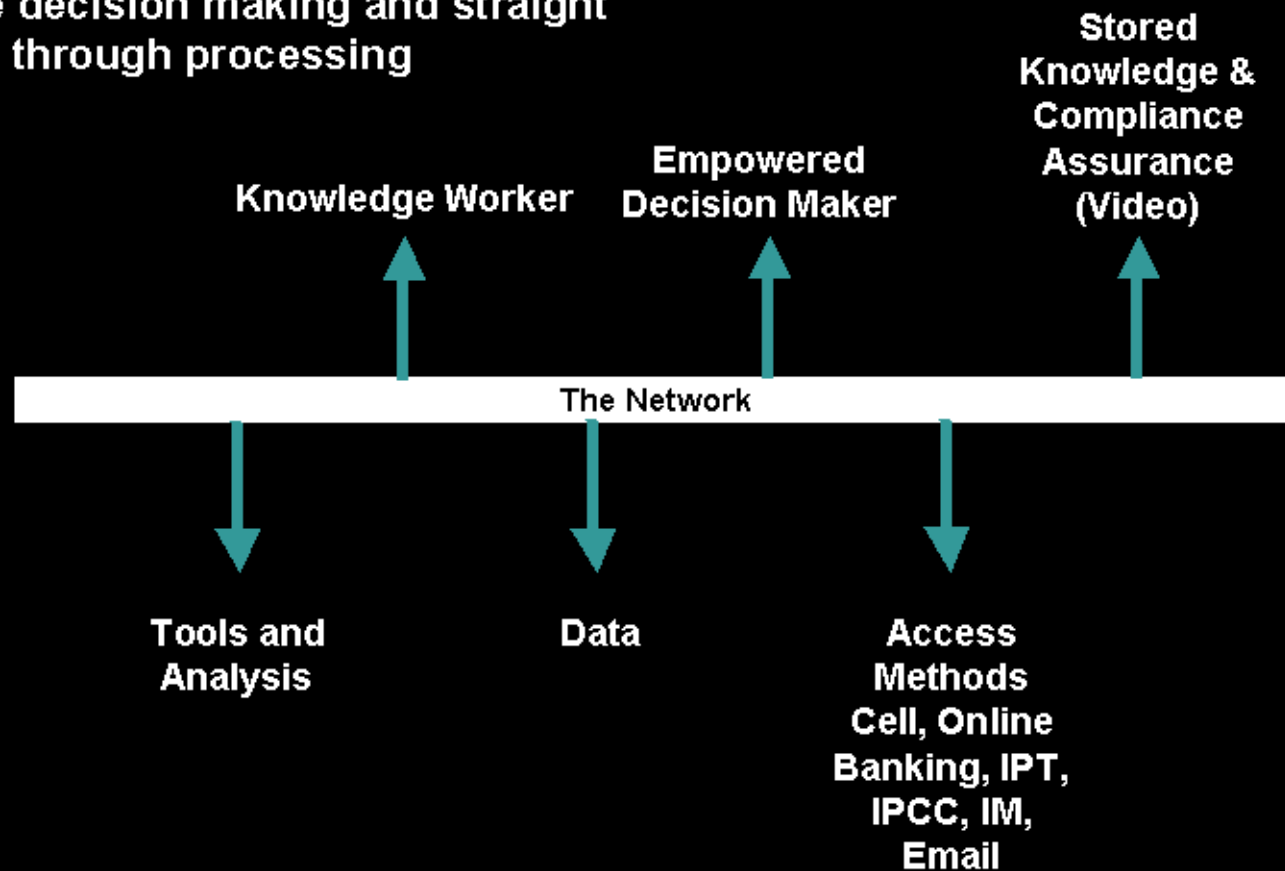
**Gerald W. Hayden
Cisco Systems Corporate Marketing**

Converged Networks

Business Process Capabilities View

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Real time decision making and straight through processing



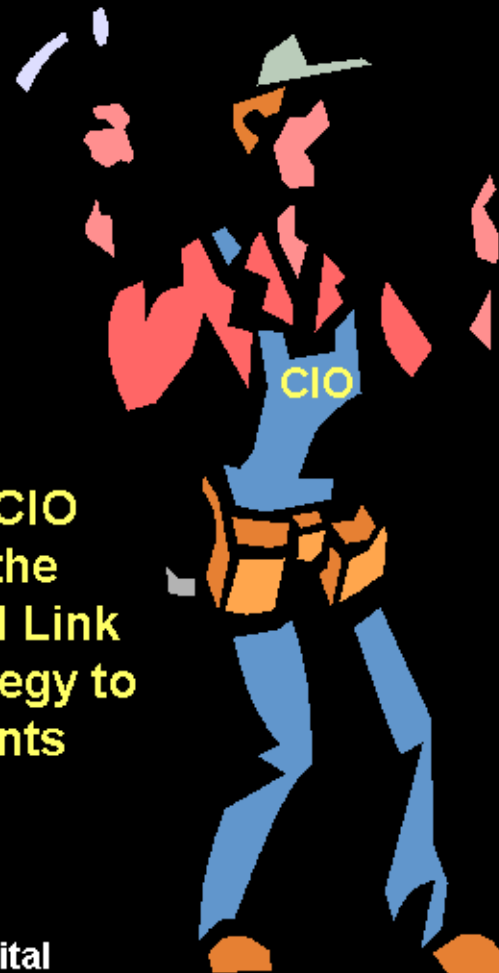
Network Financial Performance

Voice of the CIO

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**Helping the CIO
Overcome the
Financials and Link
Business Strategy to
IT Investments**

*** Current Cisco Capital
Emphasis**



THE SEVEN POINTS

**Network Operations &
Skill Set Gap**

Off the General Ledger Costs

**Accrued Network Expenses
& Asset Quality**

Outages & Transfer Costs

**Strategic Architecture
and Cash Flow Impact ***

**Security, Self Insurance &
Risk to Capital**

**ROI & Business Process
Management Funding**

Those who aim at nothing hit it with amazing Accuracy...

Typical Network Objectives and Requirements

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Desired Result “Objectives”

- Benchmark as lowest cost Network Provider

- Provide high Availability

- Enable Business Strategy in timely manner

- IT Linked with Business Strategy



Desired State “Requirements”

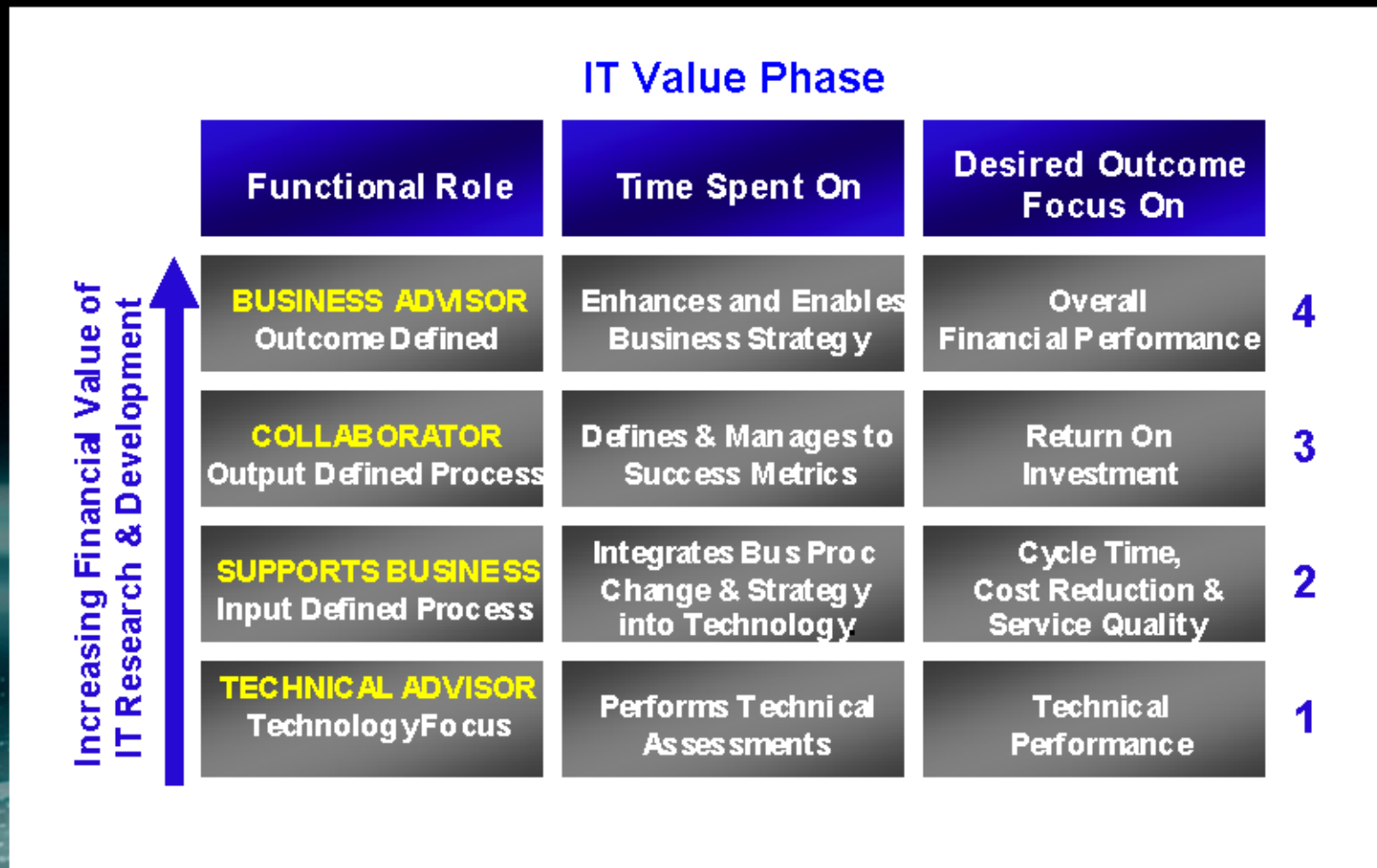
- Standard Architecture and Operating Standards

- Strong Networking Knowledge & Network Asset Quality

- Integrate Advanced Technology over time and on Planned Basis

- Link IT Assets to Business Process

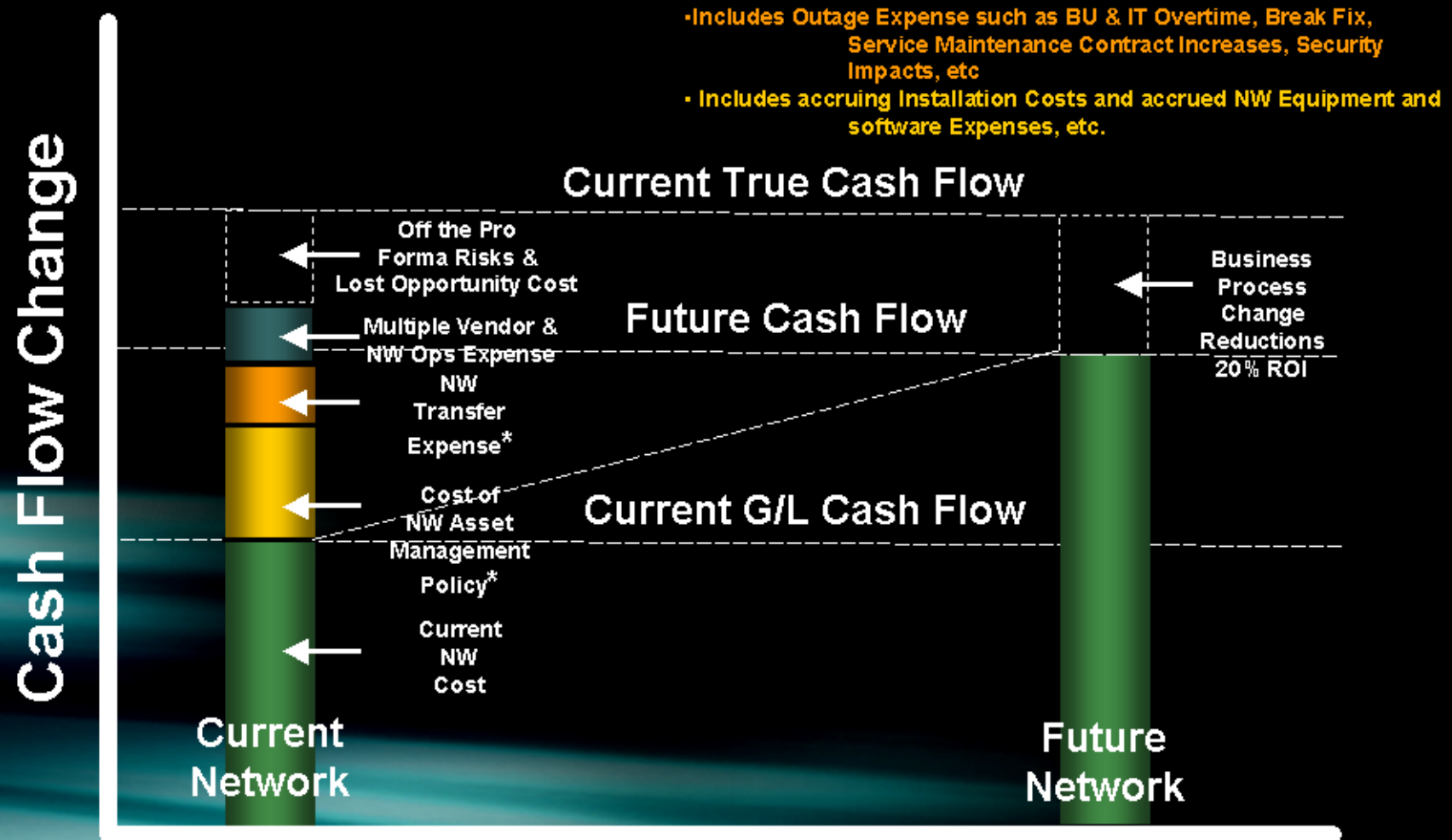
Evolutionary Value of IT Closing the Business IT Gap



Business Strategy and IT Alignment

Conceptual View of Financial Factors

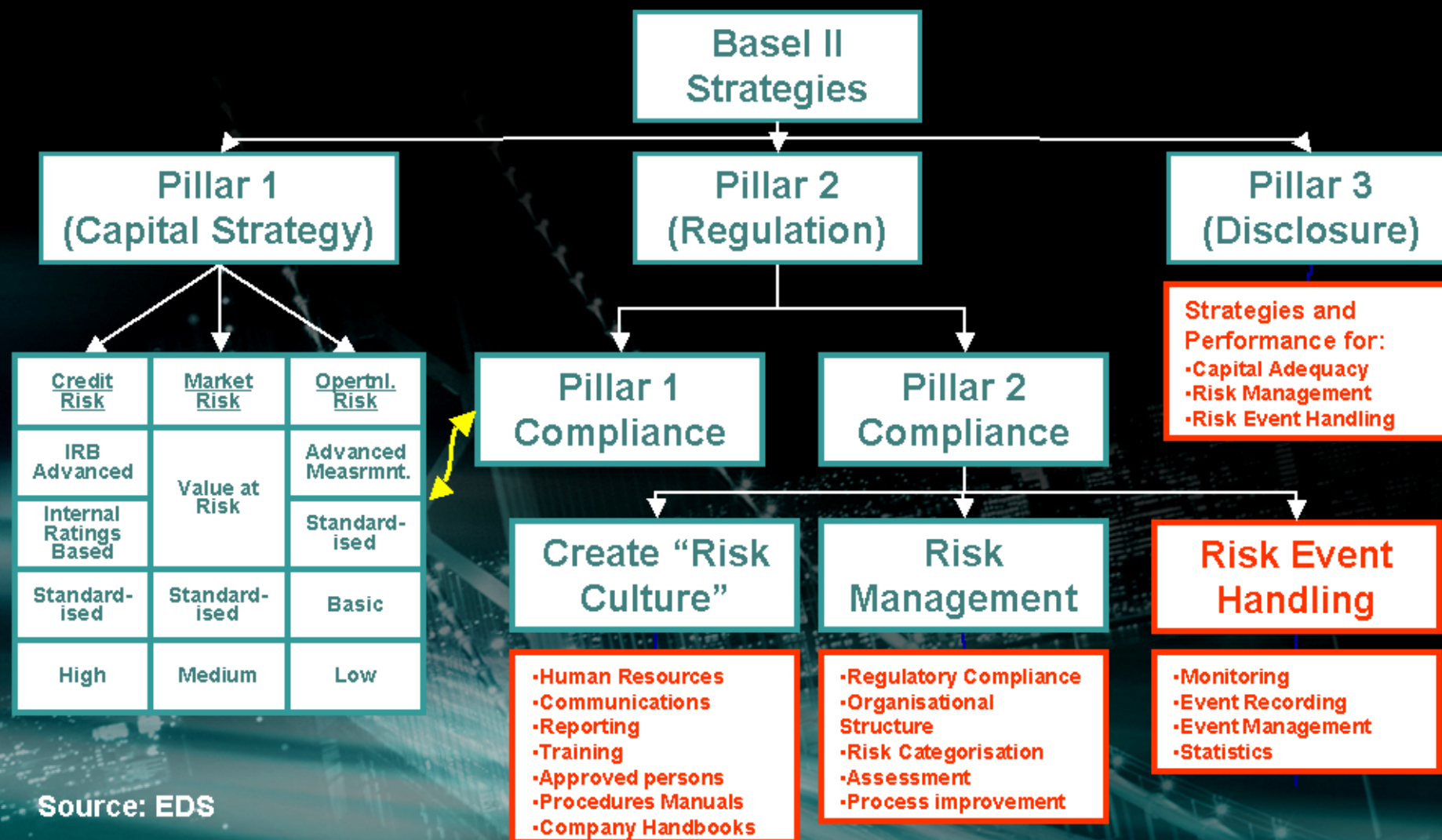
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BASEL II Summary

The Role of IT and the Network

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Converged Networks

Risk Assessment Asset View

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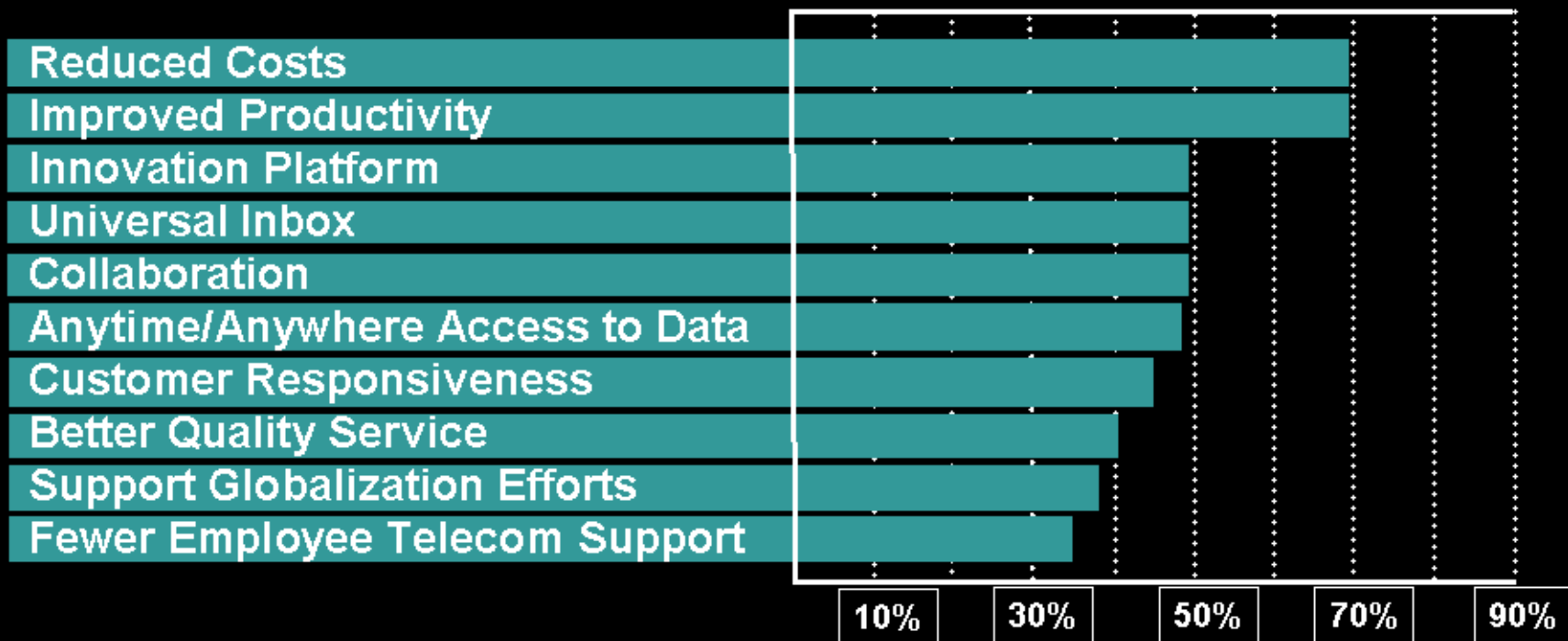
Places of the NW should be reviewed for Access Control Failure, DOS, Inability to Operate hits one of these places.

The following Assets should be examined:

- **Data Asset (Cost of intellectual Capital Loss or ID theft)**
Business process should be examined for employee theft as well.
- **Production Asset - Ability to process both in terms of OT for recovery and loss of Production Asset.**
- **Downstream Effects such as lost Funds Availability, Uniform Commercial Code violations losses (Stops, NSF).**
- **Recovery Capability.**

Why VoIP (Converged Networks) IP Survey of its Future Value

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Source: Information Week VoIP Study October 2004

The Networked Virtual Organization

Success Factors

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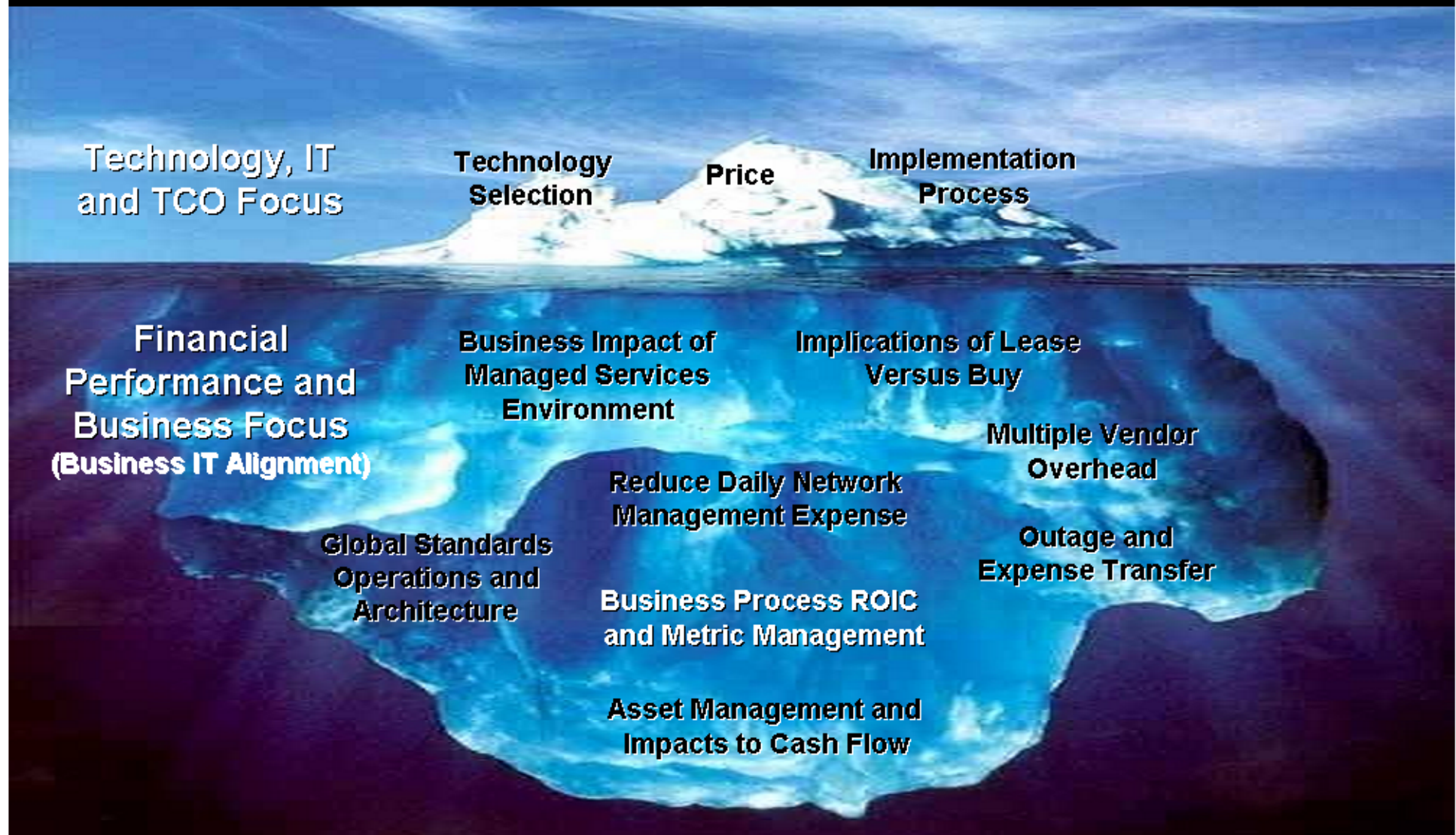
Banks with more profitable businesses tend to share three common traits.

- 1) IT Investment is Customer Driven. Best results occur when Business Process is improved before automation.**
- 2) Standardization.**
- 3) Understand Core versus Context.**
 - Segment Strategy**
 - Life Event Strategy**
 - Straight Through Processing**

Network Financial Implications

Significant Impacts on Financial Performance

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OVERALL FINANCIAL PHILOSOPHY

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**If Network is an Asset with largely
Constant Fixed Cost, then it is
imperative to leverage it to maximize
Financial Return.**

Network Financial Implications

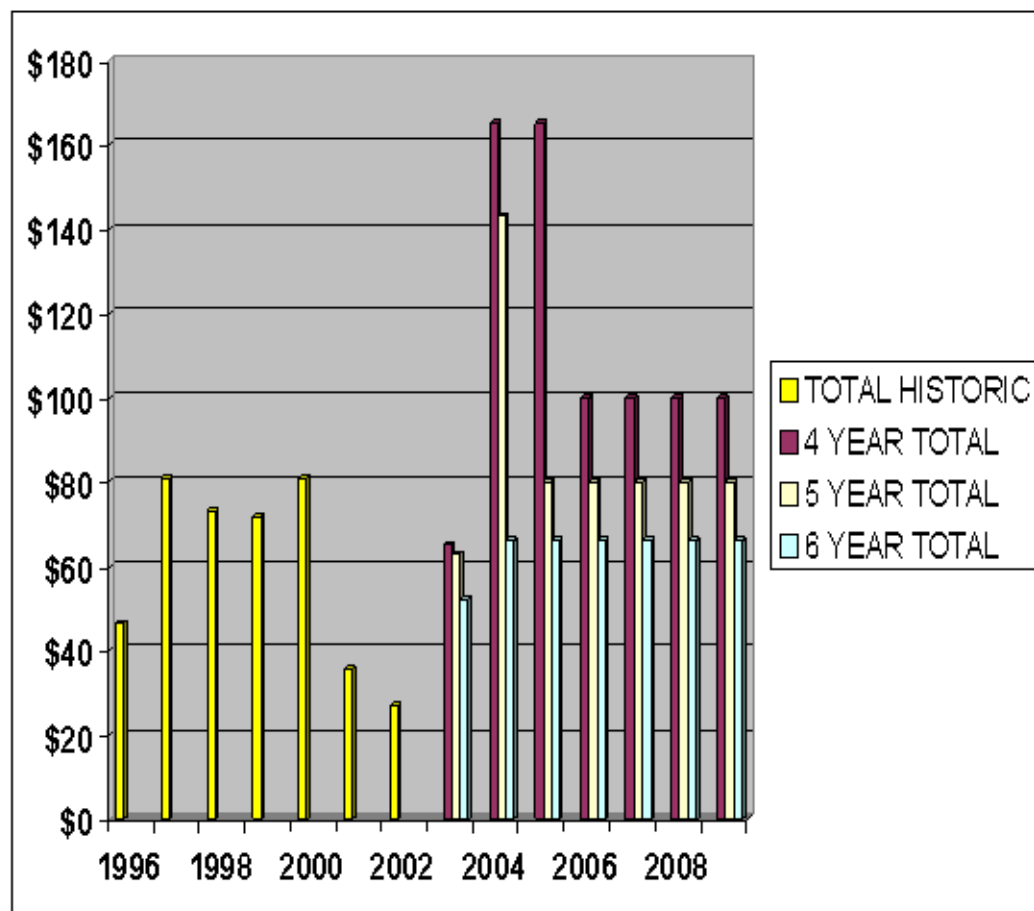
Cash Flow Impacts of a Deteriorating Network

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Key Contributing Factors

- CIO Bonus based on expense management.
- No linkage between Business Process Change and Assets (TCO vs ROIC).
- Loss of technical skills due to Network Outsourcing.

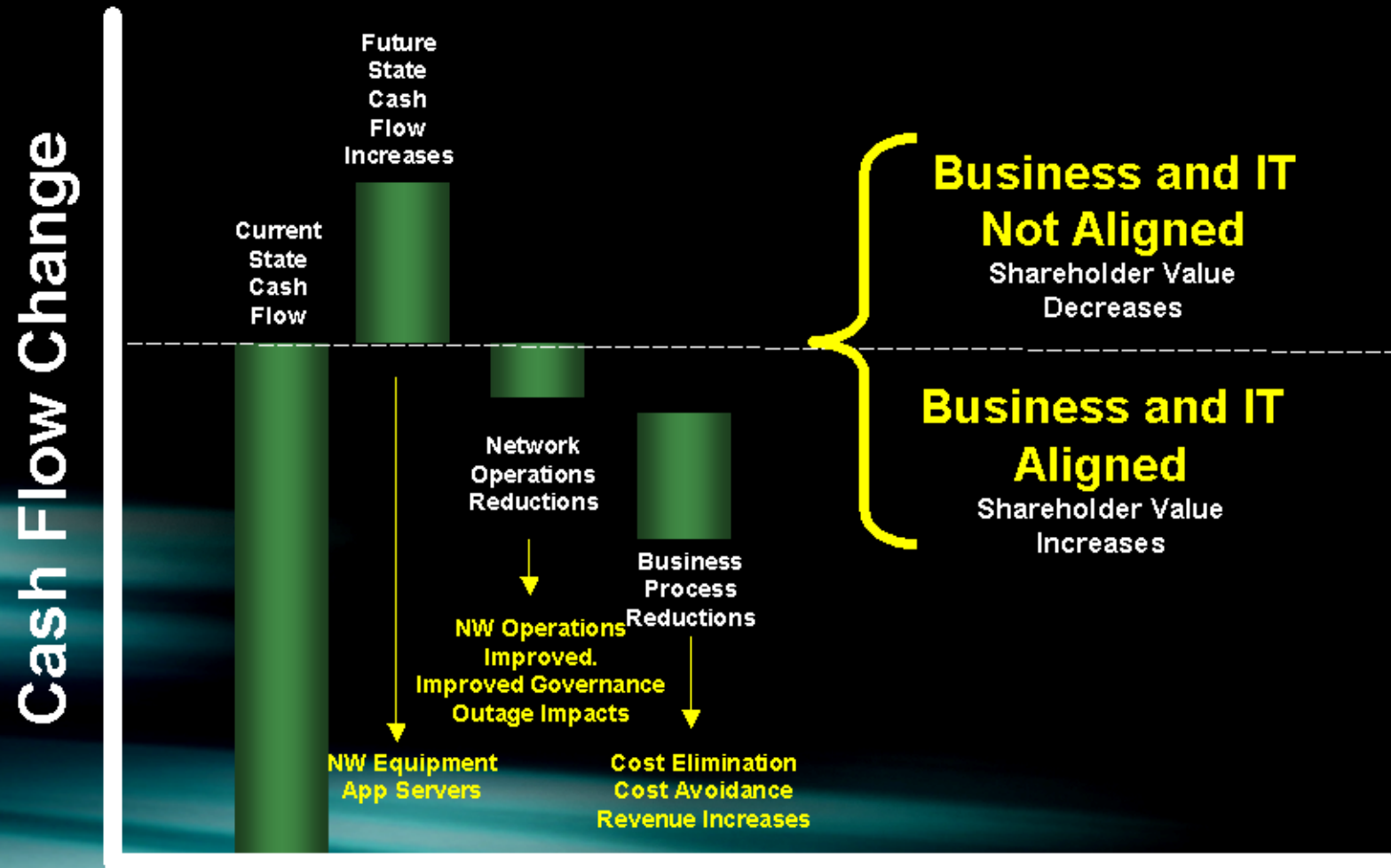
Note: Also Significant Lost Opportunity of Benefits of Business Process Change (not shown).



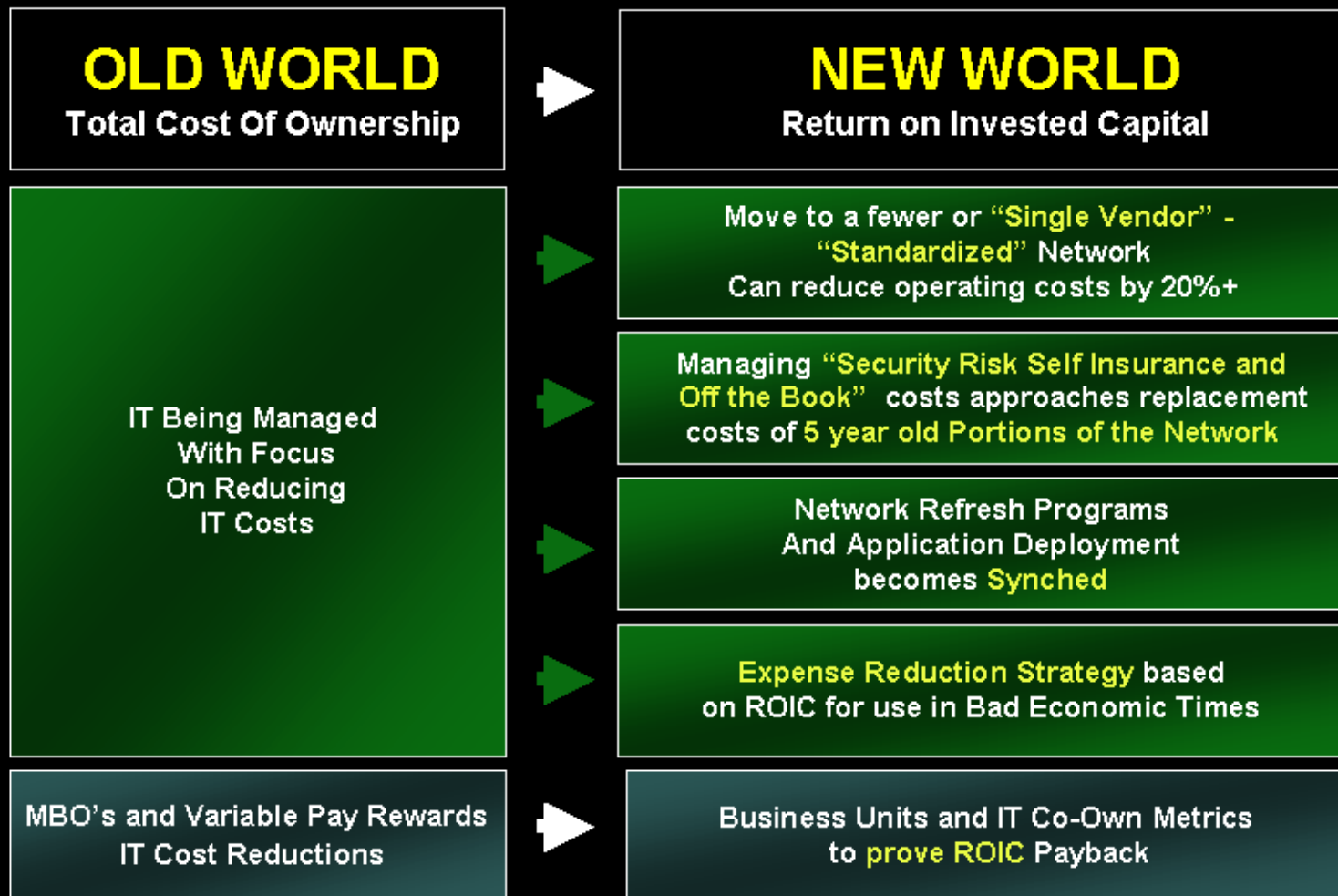
Business IT Alignment

Quick Test

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Network Management TCO versus ROIC Approach



Source: Cisco Systems Corporate Marketing Analysis from Global 150 Company Experiences

BUSINESS PROCESS RE-ENGINEERING (BPR)

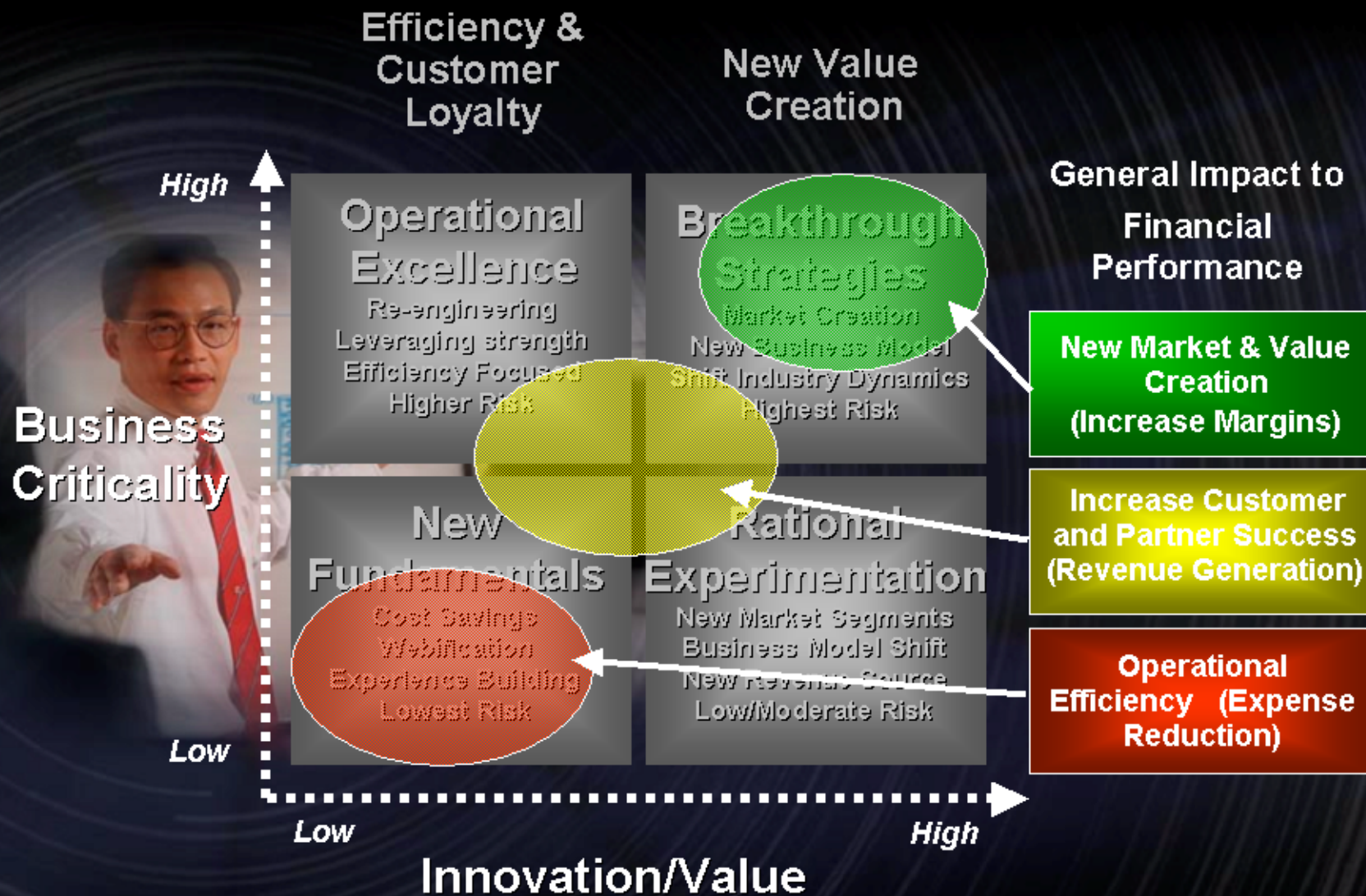
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BPR benefits should be viewed as revenue to IT infrastructure spend and measured for ROIC and ROA.

Financial Performance

Technology Phases of Converged Networks

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Operational Risks

Risk Model Considerations

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Define your Levels of Risks:

Define phased Architecture which accounts for fiscally responsible behavior in terms of:

- a) Corporate Capital Plan Alignment and smooth cashflow. Use outside leasing where it can reduce capital plan needs, smooth cashflow or accelerate tax advantages/credits.
- b) Use spend management Purchase Methods to ensure operational efficiencies and standards adoption.
- b) Uses BP and Value Changes where necessary to drive Risk Adjusted ROI. Never do it to fix a Capital expenditure issue by itself or you will be in conflict with Shareholder needs and the Street.
- c) Assign costs to Risk Categories probability factors, including;
 - Self Insurance
 - Mitigating Insurance
 - Capital Reserves (5%-7%) Note: Base it on Basel II Complex and Sophisticated Model for unexpected losses.
- d) Define “off the book” expenses to create an apples to apples comparison of Capital Plan.
- e) Advise Investors of Risks and Possibilities of unexpected losses. Use Stock Price multiplied by trailing earnings to calculate possible Street Impact.
- f) **Understand this is a Business Financial Decision not an IT issue and the CFO, CEO and Board should be making it.**

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QUESTIONS?