








LUCENT and TELECOM NEW ZEALAND

Partnering and Outsourcing

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Telecom

Lucent Technologies
Bell Labs Innovations

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Summary



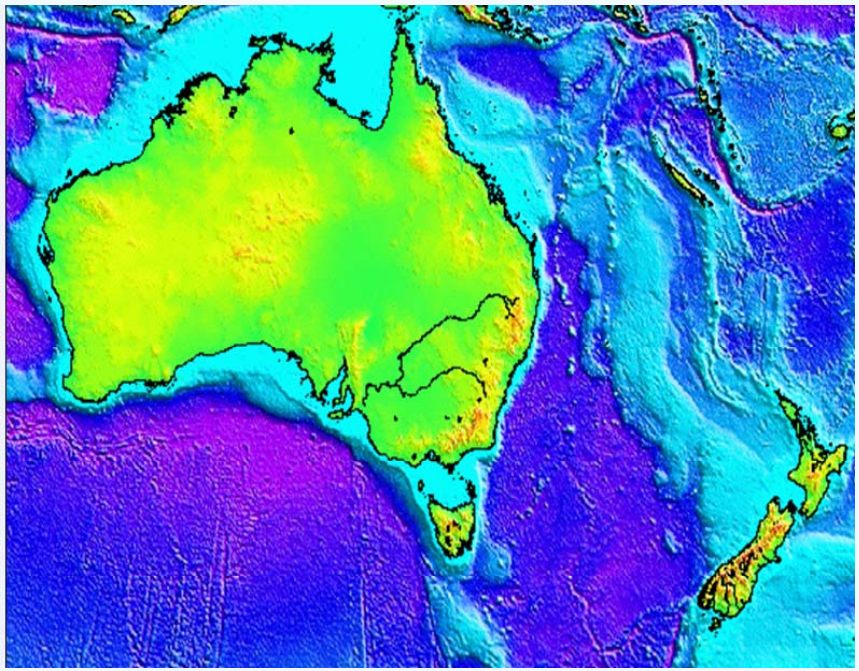


Land Area: 268,676 sq km (103,736 sq mi)

Population: 4.0 million



TELECOM NEW ZEALAND
Developing a Trans-Tasman Services Organisation



NEW ZEALAND
Integrated Service Provider

Revenue NZ$3.8B (USD 2.4B), Employees 5,040, 1.8m Access lines

- Using scale and scope to lead the integrated communications services proposition
- Building customer preference
- Investing in next generation capabilities

AUSTRALIA
Medium Enterprise Focused Business

Revenue NZ$1.5B (USD 1.0B), Employees 1,650, 750,000 customers

- Reducing complexity, organising around customers
- Creating an attacker culture
- Investing in people and capability

Telecom New Zealand's Partnering Strategy

- Over the last 10 years Telecom has outsourced many of its functions. The initial criteria were non core activities to reduce cost. Activities outsourced include:
  - IS Operations to EDS (1999 in NZ and 2003 in Australia)
  - Network build
  - Network maintenance
  - Call centre operations
  - Operator services
  - Property management
  - Warehousing & distribution
- Comfort with outsourcing initiatives that deliver cost benefits and improved service has been a precursor to the establishment of larger relationships with key suppliers

"Strategic Partners Leverage Each Others Core Competencies to do what neither would be able to achieve independently"

- Back in 1999, Telecom recognised that the global Telecommunications industry was undergoing fundamental changes. Competitive and regulatory pressures were driving reduced margins. A radical restructure of our relations with suppliers was needed to ensure that we, and our key suppliers, focused on:
  - Reducing duplication of effort
  - Delivering value to end users
  - Aligning incentives through the value chain
  - Applying effort aligned to competencies
- Telecom has entered into 2 significant partnering relationships
  - Alcatel in New Zealand and Australia for fixed network (2002)
  - Lucent in New Zealand for CDMA network (2003)

A Common Junction..

Telecom

- Decision to switch from a multi-supplier model to Partnering
- Outsourced all IT to EDS
- Out-tasked all field work
- NZ Mobile market matures
- Experienced significant market share erosion
- Up against a competitor with Global leverage



Lucent Technologies
Bell Labs Innovations

- Successfully bid for Telecom's CDMA network
- Completed network build
- Successfully upgraded network
- Improve Network Performance and Quality
- Looking to grow a vibrant NZ business
- Strategic drive to leverage services capability

Telecom's decision was driven by the need to "focus on customer and market outcomes versus getting the best price from a vendor."

Partnering Objectives



- Maximise the financial performance of the CDMA Network
- Significantly improve Telecom's performance against Vodafone
- Ensure Lucent has a sustainable and vibrant business in New Zealand
- Provide Lucent with the opportunity to leverage the Partnering Relationship to grow revenues outside of New Zealand

Maximum value comes from focussing on mutual business outcomes.

Scope

- Network Technical Strategy and investment planning
- Network Design and Optimisation
- Network deployment,
  - Including management of 3rd parties
- Operations & Maintenance
- Supply of technology
  - Coverage, Capacity & Capability

Shared:

- New Customer Services Planning

Integrated and balanced model - scale & efficiency.

Services measured by network performance and quality

Technology supply measured by cost effectiveness & ROI

Partnering measured by business uplift and innovation outcomes

Before and After

PRE-	Responsibility Area	POST-
Telecom	Network Investment Strategy & Planning	Lucent Technologies Bell Labs Innovations
Telecom	Network & RF Optimisation	Lucent Technologies Bell Labs Innovations
Telecom Lucent Technologies Bell Labs Innovations	Network Design	Lucent Technologies Bell Labs Innovations
Telecom Lucent Technologies Bell Labs Innovations	Program Management & Reporting	Lucent Technologies Bell Labs Innovations
Telecom Lucent Technologies Bell Labs Innovations	Network Support	Lucent Technologies Bell Labs Innovations
Telecom	Operations & Maintenance	Lucent Technologies Bell Labs Innovations
Telecom	3rd Party Field Force Management	Lucent Technologies Bell Labs Innovations
Telecom	Business Strategy & Planning	Telecom
Telecom	Marketing & Sales, Cust, Svcs., Billing	Telecom

Special Mentions

- A symmetrical Remuneration model
- Trusting technology supplier with network investment recommendations
- Partnering Governance – balanced scorecard
- Stretch initiatives to lift the technology and market success bar



Partnering Value

- Telecom has committed to its Board significant benefits as a result of Partnering with Lucent. These benefits consist of Opex savings, Capex savings and stretch benefits resulting from market based initiatives.
- Examples of where these benefits are starting to accrue are:
  - Lucent using its global presence and purchasing power to reduce the cost of purchases from 3rd parties
  - Faster speed to market for new services & applications
  - Joint development and implementation initiatives (reducing waste)
  - Scheduled unit cost reductions

Telecom – Lucent Partnering Summary

- Focussed on mutual business outcomes
- Expansive Services Scope – scale and efficiency
- Telecom focus customer centric – Lucent focus on the Network
- Partnering Construct to “lift the bar”
- Lucent Global insights and skills to counter Competitive Threat
- Excellent opportunity to drive innovation - microcosm

"Its working (the new Outsource model), network performance continues to improve and the quality enhancements projected are falling into place - overall I am pleased".

-Steve Fuller, GM Network Delivery, Telecom New Zealand

Back-Up Slides

Key areas of Note

- Broadband - DSL coverage at 85% of lines. Wireless Network and Satellite technologies will extend coverage to 100%
- CDMA Mobile network getting excellent uptake. 1XRTT delivering well ahead of current market needs
- Groundbreaking partnerships with Alcatel (wired) and Lucent (mobile)
- Next Generation Network – building high-speed Internet Protocol (IP) network for business and residential customers.



Group Financial Performance - New Zealand and Australia (NZ$ millions, for quarter ended 30 September 2003)

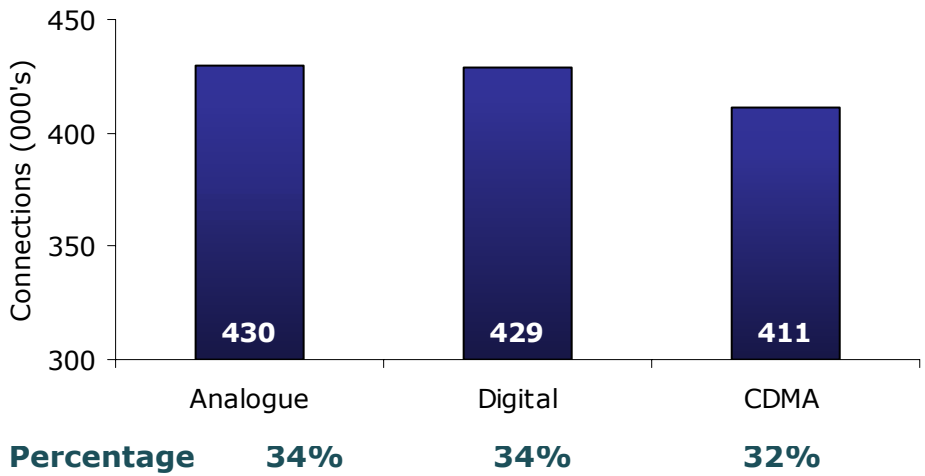
	Q1 03 $M	Q1 04 $M	Change %
REVENUE	1,306	1,321	1.1%
EXPENSES	765	767	0.3%
EBITDA	541	554	2.4%
EBIT	340	345	1.5%
NPAT	146	162	11.0%
OPERATING CASHFLOW	458	480	4.8%
NET DEBT	5,184	4,419	-14.8%
EBITDA MARGIN	41.4%	41.9%	

New Zealand
Mobile Plan for Winning Preference

- CDMA / 1X handsets through Sprint
- Pricing initiatives
- Utilising competitive advantage, delivering benefits of integration
  - Xtra (ISP) services on mobile
- Retail, distribution, branding
- Network coverage
- ARPU = NZ$49.20/month up 7.9%

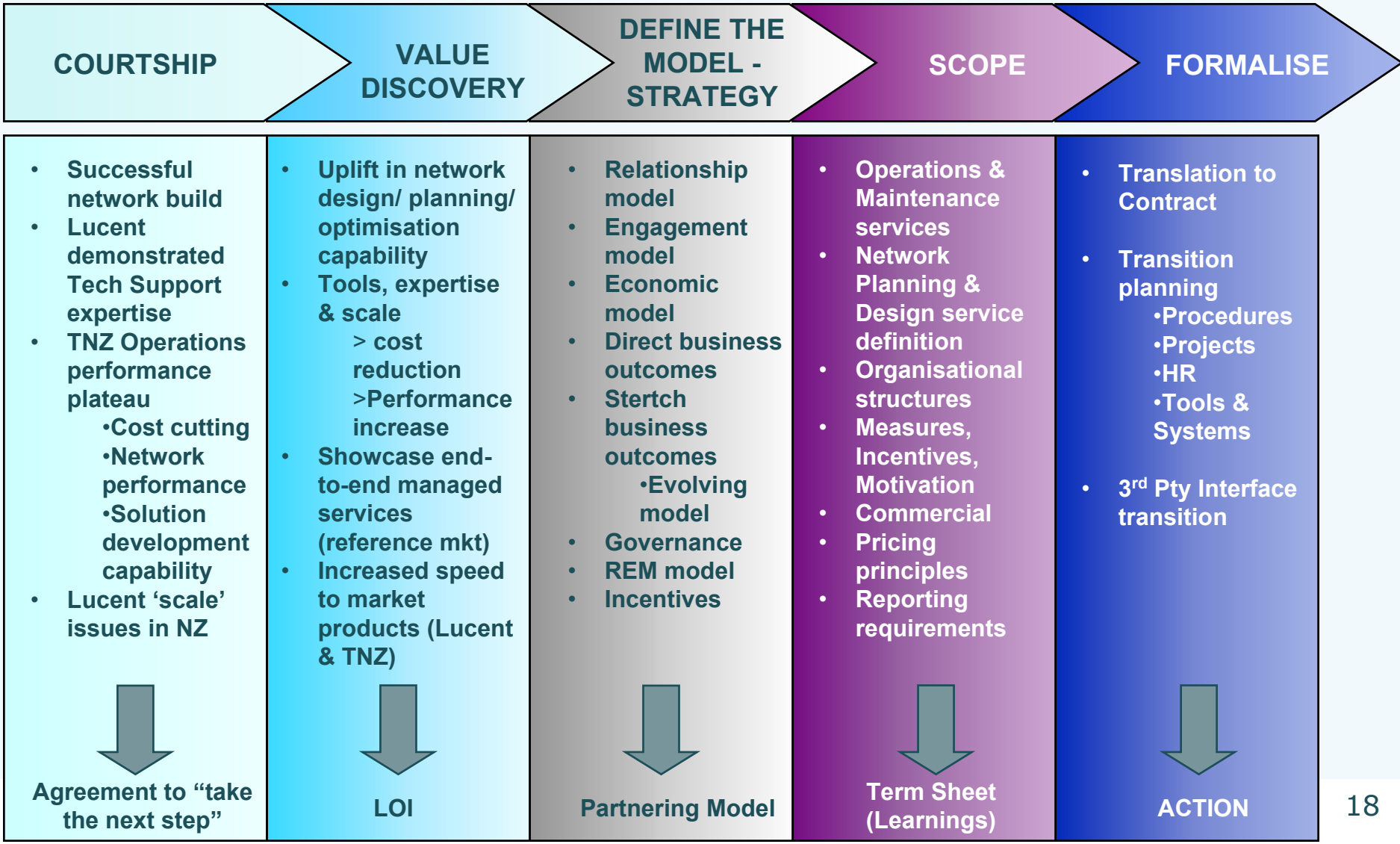


Mobile Subscriber Base: 31 March 2003



Percentage	**34%**	**34%**	**32%**

Process Phases



Five Guiding Principles

- #1 Agree strategic commerical intent early
- #2 Understand all the costs - baseline
- #3 Do extensive and detailed due-diligence
  - Organisation, systems, performance, process, 3rd parties, etc.
- #4 Value is a sum game – costs, leverage & innovation
- #5 Transition Planning is key – HR, IT, Real Estate & work in progress

