

*Backgrounder for the press*

## Profitable Growth in Emerging Markets

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*Backgrounder for the Press – Profitable Growth in Emerging Markets*

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### **Characteristics of emerging markets**

Since early 2004, more than 1 Billion subscribers worldwide are using GSM. According to market analysts like EMC database, this mobile subscriber base will nearly double until 2008 with the most significant service still being voice. But subscriber growth in many mobile markets is at a critical point today. While existing subscribers continue to generate high revenues, the vast majority of new subscribers – the so called Low-ARPU segment - will produce significantly lower revenue contributions resulting in serious economical challenges for the operators (see Figure 1).

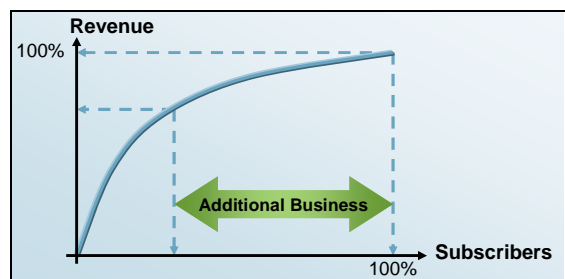


Figure 1: Contribution of subscribers to revenue

Specifically, but not exclusively, this applies to emerging markets which can be characterized by a low mobile penetration and high subscriber growth rates. For the next years, the main subscriber growth for in Eastern European countries is still located in the 2G/2.5G segment. Countries like Russia,

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Ukraine, Poland and others will add several millions of new subscribers to their existing networks, creating the demand for further investment for network extensions.

On the other hand, Eastern European countries have been and are facing significant decreases of voice ARPU (Average Revenue Per User), at an average of -29% from 2002 to 2004. A continued traditional GSM network roll-out in these countries with low ARPU would lead to reduced profitability, while a smart network rollout can help these operators to increase their revenues at profitable margins (see Figure 2).

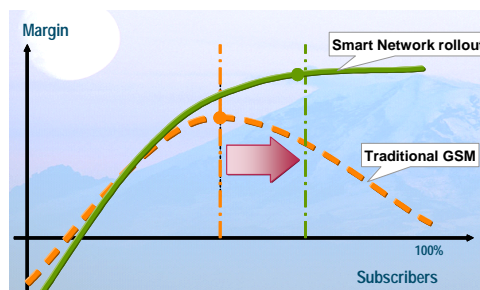


Figure 2: The challenge of higher profitability

### **What does a smart network roll-out mean for the operators?**

It means of course cutting down infrastructure cost (Capex) and operational expenses (Opex). But that's only half of the story. A smart network rollout

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also means increased network quality - to a level better than competitors - in combination with service differentiation and additional business with new subscriber segments.

### **How do end customers profit from a smart network roll-out?**

End customers will benefit from affordable mobile tariffs as well as affordable and reliable handsets. Moreover they will enjoy GSM coverage even in rural or remote areas along with good speech quality and stable calls.

It is our perception that many operators have recognized that any solution for such a smart network roll-out must not concentrate on single aspect e.g. the radio access system only. It is widely understood that for a sustainable business success, a comprehensive solution is needed to optimize all parts of the network:

This is achieved by the following building blocks

**Powerful Base Transceiver Stations (BTS)** for a minimal number of BTS sites and easy installation and maintenance, saving both Capex and Opex

**Flexible GSM Media Gateway solution** to minimize transmission cost when running a high degree of local voice traffic

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**Intelligent assignment of Service Classes** for differentiation between premium and low ARPU subscribers, thus making optimal use of network resources and generating approx. 15% additional revenue.

**Home Zone Telephony Services** for new revenue in business segments like wireless local loop

**Fashionable voice centric terminals** to minimize operators subsidies.

### *Contact for the press*

Siemens  
Press Office  
Tel.: +49 89 636 79597  
E-mail: [monika.bruecklmeier@siemens.com](mailto:monika.bruecklmeier@siemens.com)