Mr Joseph Iita
Chairman

# Chairman's Review

It is with pleasure that I present you with my first annual review as the non-executive Chairman of the Board of Directors of Telecom Namibia for the year ending 30 September 2007.

During the year under review, Telecom Namibia continued to execute our Strategy 2010 well, investing heavily in new generation networks, delivering solid financial results and demonstrating once again our ability to excel in a dynamic, challenging marketplace. With Strategy 2010 as the roadmap, Telecom Namibia can confidently deliver sustained results for its shareholder in the years ahead.

## Awards

Telecom Namibia was honoured with the "The Best IP Network of the Year" Award at the Cisco Networkers Conference held at Sun City, South Africa in early 2007. Our company is the first in 'Emerging Africa' to merit this prestigious accolade, and we are delighted to be in this coterie that represents the very best in IP networks today.

I would like to congratulate the management and employees whose professionalism and dedication to excellence made this great achievement possible. We must seek to improve on those standards and have them spread more evenly across the entire network infrastructure.

## Namibian growth volatile

The Namibian economy has grown robustly by 4.1% in 2006, mainly because of the strong performance of the capital intensive mining industry. It is expected that the trend will continue in 2007 with even higher economic growth of an expected 4.5%. Again, the Namibian economy has been driven by the mining industry. Commodity prices increased sharply due to continued growing demand from especially China and India. The long term price of uranium has increased by more than 60% over this period. Due to the high price of uranium and the expected continued strong demand for uranium over the long term, exploration activities have increased significantly in Namibia with the prospects that the production of uranium in Namibia can more than double over the next five years.

The strong commodity run resulted in higher profitability of Namibian mining companies and higher taxes. This combined with other significant contributions from the Southern African Customs Union, implementation of more effective tax collection measures and relatively better fiscal management has resulted in central government budget surpluses. These surpluses were partly used to finance ad hoc capital projects but a significant portion was also utilised to lower public debt levels, to such an extent that the total domestic public debt has dropped by more than 18% year-on-year at the end of the reporting period.

The higher commodity prices unfortunately also had a negative impact on inflation in Namibia, resulting in the inflation rate increasing from a low of 0.9% in the middle of 2005 to a high of 7.2% in the middle of 2007. The average inflation rate for the reporting period was 6.5% compared to 4.4% for the previous period. The main reason for the acceleration in the inflation rate was food prices and higher fuel prices. The inflation rate for food, with a weight of 30% in the inflation basket, was 13.4% in September 2007 compared to 6.8% for the same month a year ago.

As the containment of inflation is the most important objective of the Bank of Namibia and the South African Reserve Bank, higher inflation would inevitably lead to higher interest rates. The bank/repo rate was increased on four occasions during the report period with a total increase of 200 basis points. Namibian banks also increased their prime rates simultaneously from 12.75% to 14.75%.

Contrary to South Africa where growth in credit has remained stubbornly high, the growth in credit in Namibia has reacted fairly quickly to higher levels of interest rates. Over the reporting period the annual growth in credit extended to the private sector by commercial banks has dropped from around the 18% levels a year ago to 12%. The lower demand for credit has also impacted on private consumption expenditure. For example the 12-month cumulative passenger vehicle sales up to September 2007 were more than 4% lower than a year ago and the declining trend has continued.

## Global telecommunications development

Telcos around the world are struggling to hold onto their old revenues and prepare themselves for the rapidly converging marketplace. After years of cost cutting, some telcos are starting to invest again. Key issues for the players are the decline in voice revenue and the emergence of VoIP. Attempts to move into media markets such as broadband TV and far more sophisticated delivery models (triple play) is also providing the industry with plenty of challenges.

Despite the continuous barrage of information that voice remains a killer application, something we do not dispute, fixed voice businesses around the world are under pressure. The basic voice business is still hugely profitable and cash generative for incumbents (and it supports their debt mountains). But this business is under pressure from a number of factors. By far the largest is competition. Downward price pressure is likely to reduce margins, and mobile calls continue to substitute calls over the fixed network.

In 2007 mobile continued to steam ahead in developing markets, to the extent that early signs of market saturation became evident. In the developed world, broadband, as a facilitating infrastructure, is creating a boom in video-based applications in healthcare, education, business, media, entertainment and government. In both government and business, a mind shift is taking place as to the importance of broadband. The financial market will increasingly become involved with private equity to unlock the hidden telecoms values in this utility market.

Despite the enormous success of mobile, this segment of the market will, over time, merge into what is known as Fixed Mobile Convergence (FMC). As telecommunications networks move into content and service distribution networks, it will be broadband that will become the major infrastructure based money-spinner, both on fixed and mobile (wireless) networks. IP, once implemented on both networks over the period between now and 2012 will provide for a seamless integration of services delivered over these networks.

In order for the industry players to position themselves, serious structural changes need to be made to align the current businesses towards the challenges of media and IT convergence. Furthermore, there are the cannibalisa-

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tion effects of VoIP and, on top of that the access models are changing, with triple play emerging as the model forward.

There is now more global consensus that the real solution is structural separation, which will lead to the development of very focused, cost-efficient infrastructure operators.

### Legal and regulatory environment

The telecommunications regulatory framework in Namibia is an open-ended question, placing the sector and Telecom Namibia's business in an indeterminate state.

The Namibia Communications Commission (NCC) conducted a stakeholder workshop on the proposed Information Communications Bill. Telecom Namibia made substantial submissions to the Bill but has not received any feedback on the outcome of the submissions made. The Bill was expected to be passed during the final session of parliament in September 2007.

The Bill proposes a licence regime outlining the types and criteria of licences to be issued for the provision of telecommunications services. All aspects of Telecom Namibia business would be subject to regulation by the new authority.

Other regulatory instruments soon to be introduced are the new Labour Act, the Competition Act and the Companies Act, all which may be promulgated soon.

The Competition Act of 2003 provides for the establishment of a Competition Commission, which was done recently. The Commission seeks to appoint a new Chairman.

The Commission will regulate competition in the telecommunications sector as well. Any party that feels aggrieved by the "anti-competitive" practices of any business can lodge a complaint with the Commission and have it investigated. With these provisions on the horizon, Telecom Namibia is gearing itself to stay competitive and having fair market strategies in place. These strategies extend to pricing, product and service bundling.

This Act will also determine the meaning of a "dominant" position in line with regulations to be passed by the Minister of Trade and Industry and will regulate any dominant carrier in that respect.

### Corporate Governance

To protect and enhance shareholder value, the Board of Directors remains committed to ensuring that the highest standards of corporate governance are observed throughout the Company and Group as an imperative part of discharging its responsibilities. In a separate chapter of this Annual Report, a comprehensive statement on corporate governance by Telecom Namibia is presented.

### Sustainable development

On 13 June 2007, Telecom Namibia publicly unveiled its Black Economic Empowerment (BEE) Procurement Policy, making Telecom Namibia one of the first corporate giants in the country to participate in this process which aims to enable wealth creation and distribution to the majority of previously disadvantaged Namibians. Their participation in the national economy, it is widely believed, would enhance not only national growth and development, but political and social stability while ridding the country of poverty.

Furthermore, telecommunications plays a crucial role in today's information society, especially with regard to economic, social and cultural development. Therefore, investment in telecommunications development must be weighted against needs of investment in other parts of the infrastructure, such as roads, railways, water supply and electrification. Moreover, telecommunications may be considered as the "infrastructure of the infrastructure", as it provides tools for the development and efficient use of other parts of the infrastructure.

### Board changes

The previous Board accepted the voluntary resignation of Mr. Sylvester Black during the month of April 2007.

The former Board Chairman Mr. Titus Haimbili, together with two directors - Mr. Harold Pupkewitz and Ms. Rosa Nakale - also opted to disembark from the ship, after having served the Board for over 37 years altogether at the end of their term of office in August 2007.

Namibia Post and Telecom Holdings Limited, as 100% shareholder, embarked upon a public process calling for the expression of interest to serve on the Board of Telecom Namibia. These public notices were received with overwhelming positivism as it reflected the principles of good corporate governance in being transparent, fair and responsible. A Nomination and Selection Committee was established, in line with the recommendations by the King II Report. Interested individuals were subjected to interviews and presentations, and the shareholder subsequently approved the new Board of Directors of Telecom Namibia consisting of the following members:

- Mr. Joseph Iita (Chairman)
- Ms. Feitjie Veldskoen
- Mr. Roger Gertze
- Mr. Michael Mukete

Mr. Frans Ndoroma was re-appointed as Managing Director.

### My thanks

I commend the management team and staff for their tireless efforts in seeking excellence and contributing to the year's achievements. I would also like to thank the previous Board of Directors for their valuable contribution to the success of Telecom Namibia.

We express our sincerest gratitude to our loyal and valued customers. We believe with their continued support, Telecom Namibia's mission of achieving Strategy 2010 is achievable. Our company is committed to repay their faith in us by relentlessly improving ourselves to not only meet their expectations but to exceed them.

We thank the Government, for its support of the company and for providing the guidance and assistance needed to see the national telecommunication operator through this exciting journey of rejuvenation and repositioning.

**Joseph Iita**
**Chairman**