



Mr Frans Ndoroma
Managing Director / CEO

Managing Director's Report

The 2006/07 financial year marked the 15th anniversary of Telecom Namibia as a commercialised entity. Fifteen years ago, the company embarked on a journey that will deliver more choices and innovation for customers – and continuing good returns for the shareholder, the Government of the Republic of Namibia.

During the year ended September 2007, I am pleased to report that we have made significant progress towards developing a Telecom Namibia that is positioned to take full advantage of the growth in the ICT business in Namibia. It has been a year of modernizing our network infrastructure to the NGN status, honing our products and services and our organisation to become more efficient and more focused on where market demand is growing fastest.

Cisco Award

During the year, we saw our company joining the top league of Cisco's premier service providers world-wide with the bestowment of an award in the category for "The Best IP Network of the Year" in 2007.

I commend all those who contributed to this ground-breaking achievement. It should not come as an entire surprise. An accolade such as this is a significant factor in attracting business for us. Now we are firmly benchmarked against the best in what may be regarded as the upper elite of the world's telcos in terms of network quality. This is in line with the new Telecom Namibia repositioning strategy. A corollary of the restructuring is the need to reposition ourselves in the external arena not just to apprise the public of our new configuration but to project competitive advantage.

Financial Highlights

The key measures on which we will be judged will be based on financial performance and the following achievements are relevant:

Turnover for the year remained relatively constant at just over N\$1 billion. Post paid call revenues decreased from N\$300 million in 2005 to N\$290 million this year. Prepaid revenues also declined from N\$65 million to N\$54 million.

The decline in call revenues was offset by significant increases in data and related services revenue which went up from N\$132 million in 2005 to N\$171 million in the current year.

Earnings before tax decreased marginally from N\$174 million in the previous financial year to N\$54 million for the year ended 30th of September 2007. This is mainly due to the fact that increases in revenue streams were less than proportionate to the increase in labour, marketing and sales and training expenses. The benefits of this expenditure should be realised in the forthcoming years.

Net profits after tax for the company for the current year at N\$ 25 million represents a decrease of 78% in comparison to the previous financial year.

For the first time, Telecom's financial statements include the results of the regional investments in Angola and South Africa. Both ventures are at roll out stages and made operating losses in the current financial year. As a result, group loss after tax amounts to N\$29 million. It is however expected that with completion of their respective roll out programmes, these investments should make positive contributions to the Telecom Namibia group profit.

Telecom Namibia faces stiff challenges of defending its market share in the face of ever-increasing competition whilst simultaneously decreasing its cost structure base to maintain profitability.

A total of N\$346 million was spent on capital projects compared to N\$160 million for the year ended 30 September 2006. These were all financed from internally generated resources.

The company's cash resources decreased by 86% year on year from N\$213 million as at 30 September 2006 to N\$30 million at the end of the current financial year mainly as a result of utilisation to fund capital projects and payments made towards the regional ventures.

The company however continues to generate significant positive cashflows from operations and it is envisaged that these internally generated cashflows will constitute the main source of funding for the planned network expansion programme. This programme will cost N\$1 billion over the next four years to 30 September 2010.

Better service through improved technology

I am pleased to report that the year of our 15th anniversary has seen through the further implementation of organisational restructuring initiatives, business process streamlining to conform to our new business model and the most extensive and intensive deployment of latest technologies and systems since the company's inception in 1992.

This involves major technology implementation projects, which aim for a complete overhaul of our backbone infrastructure, a readjustment of our product and distribution channels and the continuation of implementing our organisation's chart to align the skills of our people with the strategic objective of the company, in order to realise our mission of being an ICT service provider delivering superior service and excellence in advanced products across the entire ICT value chain.

I am therefore convinced that the many projects undertaken during the year under review will have an impact on bottom line profitability and balance sheet growth in the next financial year, i.e. 2007/2008, and beyond.

Most of the major initiatives have now been successfully completed and the company is well positioned for sustainable long term growth. We are focusing our efforts to increase our product offerings, especially broadband data services, to our existing customers and to target potential customers within the market in which we operate. Among

some of our new product offerings are broadband services based on ADSL, CDMA2000 1x-EVDO and WiMAX. These were supplemented by the deployment of an IP switching technology called Multiprotocol Label Switching (MPLS) and a MetroNet for the delivery of highly customized IP services for customers.

Enhancing our distribution capabilities and product offerings

In keeping with the company's objective of continuously improving our product offering and providing the greatest value to our customers, Telecom Namibia embarked on a re-design of its product range, including the full suite of broadband products and line of voice products, both fixed, wireless and mobile.

In providing customers with greater accessibility and convenience, the company has increased the number of products/services in our brand portfolio. The existing products of Telecards, FlexiCall and CallMaker cards/vouchers were complemented by prepaid Switch starter cards and vouchers to meet the needs of the mobile segment of our market both for data and voice communication. In addition, prepaid vouchers are now available for internet access through Wi-Fi Hotspots. All the products are available in our 46 Teleshop outlets nationwide, NamPost offices countrywide and other independent distributor outlets such as Pep Stores, Starlite, and so on.

In 2007, we remained committed to engaging our customers so that we can constantly improve our understanding of their communication needs and lifestyle choices. Our company's unwavering objective of deepening our customer relationships and delivering superior customer service continues to be at the forefront of all that we do, and our achievements during the year exemplify that these are more than just words.

Creating an infrastructure for the future

Total capital expenditure for 2006/07 of N\$350 million increased by N\$180 million compared to N\$160 million the previous year. The growth in capital expenditure reflected increased investment in customer service capabilities, mobile capacity and coverage, and deployment of next generation technological capability which are in line with Telecom Namibia's strategic priorities.

Our unique technology infrastructure and the services it enables are key to our competitive differentiation. The project implementation and business development teams continued to add significant new features and functions to the Telecom Namibia platform to enable us to offer a better user experience and to reduce the costs of doing business in the highly competitive environment

Network availability exceeded 99.995% during the year. With traffic volumes constantly increasing, scalability at low cost and without service outage is vital. Our network provisioning and assurance team has steadily increased the capacity of the network to stay ahead of demand. We established a new server room and third parties co-location centre to ensure maximum reliability and redundancy for the new IP backbone network.

If the market develops as we anticipate we need to be able to provide co-location space to more customers rather than the few we handle today. This work is ongoing.

Delivering on customer intimacy

Our existing customers are our number one priority. We have maintained focus on meeting their needs and improving the level of service standards. We are committed to making every customer experience positive and creating an environment of value addition.

We continue to take the approach of demonstrating flexibility and understanding in our dealings with customers. We are aware that customers have varying needs and as a result we are constantly packaging products and services to match their needs. This has been and will continue to be a very important facet of our ongoing activities.

We will continue to be competitive with our range of voice, data and other value added products. This together with our strong drive to create an infrastructure to deliver NGN services and products sees us well placed to gain additional business from the overall community in the future.

Competitive pricing

Telecom Namibia launched major tariff changes during the 2006/07 financial year most of which were aimed at making telecommunication services affordable to our consumers and business customers and contributing to the economic growth of the country.

Per second billing was introduced for both our post-paid and prepaid services except for public phones. Calls are billed set-up charges for the initial duration after which charging is done in increments of one second. Metering periods for payphone local calls were adjusted from 65 seconds (peak) and 130 seconds (off-peak) to 60 seconds (peak) and 120 seconds (off-peak) respectively on 1 October 2006.

International call charges were adjusted downwards by an average of 15 percent. In addition, Telecom Namibia plans to implement an average reduction of another 14 percent in international call charges and 10 percent reduction in fixed to Inmarsat call charges from 1 October 2007. Long distance (>200 km) leased line tariffs will be reduced by 13 percent effective from 1 October 2007.

Fixed to cell peak tariffs were reduced by 10 percent, while international IP bandwidth tariffs were slashed twice, first by up to 15 percent and again by 10 percent. International leased line tariffs were cut by 10 percent, while discount structures were also put in place for long-term contracts with 2-year, 3-year and 5-year durations. This discount structure is only applicable for 2048 kbps and higher circuits on both national and international leased lines.

Telecom Namibia introduced a number of rate plans on the Switch services aimed at addressing different customer calling patterns. With our Switch prepaid and postpaid call plans, consumers can select from a variety of rate plans that suits their calling preferences. With the prepaid service, two call plans, namely Switch Time and Switch Easy are available while on the post-paid, main call plan groupings are Switchself for individual subscribers and Switchbiz for business customers. Call plans are mainly distinguished by preferential rates and bundled offerings applicable within the different packages.

From 1 October 2007, Telecom Namibia will introduce full per second billing for all prepaid and post-paid Switch call plans. This means that the first minute billing on Switch call plans will be phased out and calls will be billed in increments of one second from the first second of the conversation. This will be applicable to Switch calls within Telecom Namibia networks only, i.e. Switch to Switch and Switch to fixed line calls.

Restriction of mobility

During the first quarter of the financial year, we introduced the Switch mobile product in Windhoek. Subsequently voice and data mobile services were launched in 31 additional towns and rural settlements. The product took the market by storm and was a welcome relief to many in bridging the digital divide.

Cabinet, however, passed a resolution in the second quarter, restricting Switch to towns and geographic areas with no roaming between towns. This was done irrespective of and contrary to Telecom Namibia's lawful and statutory mandate of being authorised to provide any telecommunications service of whatsoever nature in terms of the Post and Telecommunications Act 19 of 1992.

This resolution was passed outside the framework of the regulatory environment with the implication of limiting the ability of the product and its ability to sell and market.

Helping Individuals – Supporting Communities

Being a good service provider is not only about excellent products and superior service, it is also about serving and supporting the families, businesses and individuals in the communities we serve.

Every year brings with it an opportunity to do more for the communities we serve. Our success has enabled us to make significant contributions, both physically and financially to charities, non-profit associations, community groups, sporting bodies and cultural programmes.

We are passionate about making a difference to the lives of all we serve, and remain committed to supporting the local and greater community in an evergrowing capacity.

A full and dedicated report on our corporate social responsibility pursuits is outlined in a separate section of this Annual Report.

Recognising our people as our best asset

We believe our staff represent the diversity that is Namibia and this contributes to Government efforts to create oneness in diversity. We strive to create great opportunities for our people and value their contribution to the business. Our success is due to the dedication of our people and their great spirit of collaboration, dedication and commitment to the wellbeing of our company, country and people. As a consequence, we foster a learning and development culture across the organisation and have, over the years, been implementing a management development plan to identify, support and advance future leaders.

Furthermore, the company continues to develop its human capital through investments in relevant training programmes and has also implemented a career development and succession planning system. Telecom Namibia will continue to implement measures to develop its human capital and to ensure organisational readiness in realising business objectives.

Our core values of Integrity, Care, Commitment, Accountability, Empowerment, Teamwork and Mutual Respect are demonstrated and encouraged in our daily activities and play an integral role in our recruitment and selection process.

An employee based climate study was conducted in 2007 to assist us in identifying best practice, effective working relationships and areas for improvement. We have another study scheduled for 2008 to assess the progress and feedback of our implementation plan.

A word of welcome

I am delighted to welcome Mr. Joseph Iita as the new Board Chairman. I would like to thank Mr. Titus Haimbili who stepped down as chairman with effect from 14 August 2007 for his invaluable contribution. In the same vein, I wish to thank Mr. Harold Pupkewitz and Ms. Rosalinde Nakale who have served on the Board since 1992 for their contribution to the success, growth and development of Telecom Namibia as it is today.

I would also like to welcome Mr. Roger Gertze, Ms. Feitjie Veldskoen and Mr Michael Mukete who have been appointed to the Board with effect from 14 August 2007, and look forward to working with them for the good of Telecom Namibia, our customer and shareholder.

In Conclusion

We have worked during the year to build a robust and advanced telecommunication network through which we can grow in the short to medium term. Our foundation is sound, and will assist us in maintaining the solid brand that we have developed over the past 15 years. Growth is continuing and current performance indicators are favourable.

With largely predictable and stable operational costs, our focus for the year to March 2008 is to continue to drive down costs and to strengthen the business proposition. This will enable us to increase our growth rates while maintaining stable operating expenditure.

Our goal is to remain profitable and to be cash flow positive with significantly reduced operational costs – and this will enable us to capitalise on market growth from a position of strength.

With the continued support of our customers, staff, shareholder and other stakeholder we will move forward with confidence and deliver on our mission.



FJP Ndoroma
Managing Director