



## Managing Director's Report

Two years ago, the company embarked on a repositioning drive with the aim of transforming itself into a Next Generation Network (NGN) service provider, building core competencies across a range of disciplines and creating a more focused portfolio of next generation products and services.

In support we are making substantial investments for the long-term health of the business.

### Key Areas

Since the adoption of our transformation strategy in July 2006, which is focused on building customer preference in the key areas of mobile, broadband and ICT, and on defending our traditional revenue streams, we have been vigorously pursuing our strategy to develop our underlying business and deliver on our Strategic Blueprint.

The main components of focus for the 2007/08 financial year are:

- Rolling out of new technologies required for the introduction of a broad range of products and services;
- Building excellence in sales and marketing to help develop a more customer focused organisation;
- Driving costs down;
- Improving all aspects of capital discipline;
- Developing talent management processes; and
- Changing the culture of the company.

I am delighted to report that we have been successful on all of these fronts and I believe the company is now well placed to build on these results to further develop the company's position.

### Financial Progress

Turnover for 2008 grew by 2% to N\$1.08 billion.

Profit before tax of the company for the period amounts to N\$80 million. This is attributable to increased turnover and improved cost control measures.

Capital expenditure in local infrastructure and fixed asset acquisitions amounted to N\$246 million in 2008. Our cumulative capital expenditure over the past 5 years stands now at N\$1.1 billion. This investment has increased the current fixed asset cost base to N\$2.6 billion.

Our long-term debt increased from N\$75 million in 2007 to N\$158 million as at 30 September 2008. However, the business

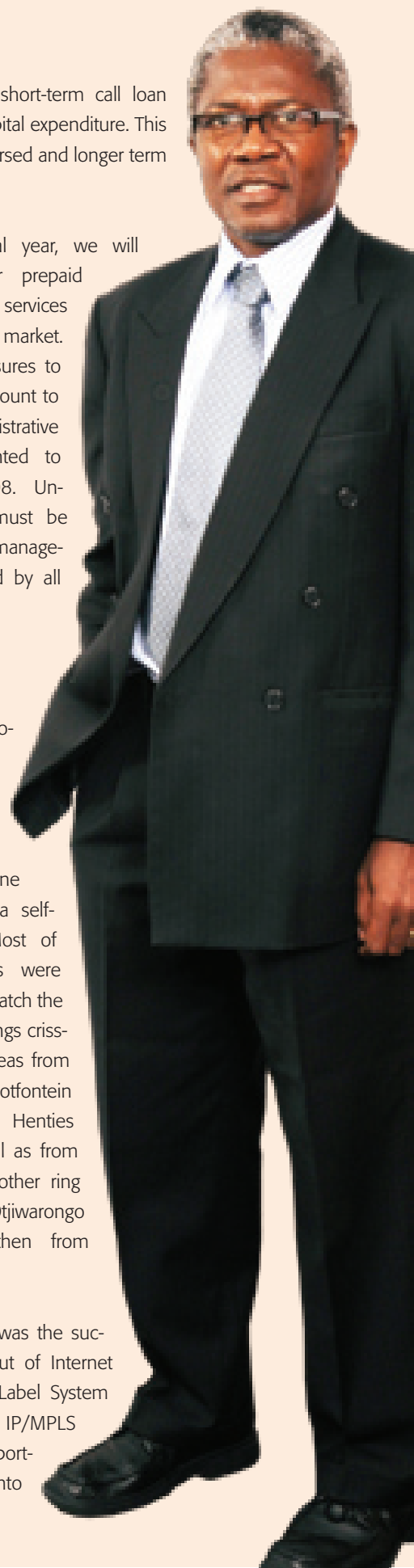
continues to utilise the short-term call loan facilities to finance the capital expenditure. This situation needs to be reversed and longer term loans sourced.

In the 2008/9 financial year, we will focus on pushing our prepaid products and data & IP services more aggressively in the market. We will implement measures to cut direct costs which amount to N\$298 million and administrative expenses which amounted to N\$555 million in 2008. Unnecessary expenditure must be curtailed and the cost management measures enforced by all departments.

### Creating Broadband Namibia

Large projects are progressing well with a number of significant milestones achieved. One of them is the project to create backbone fibre ring networks for a self-healing infrastructure. Most of our transmission routes were upgraded to STM-64 to match the MPLS standards. These rings criss-cross large swathes of areas from Gobabis via Epukiro to Grootfontein and then Tsumeb; from Henties Bay to Kamanjab, as well as from Tsumeb to Oshakati. Another ring runs from Karibib via Otjiwarongo to Grootfontein and then from Otjiwarongo to Kamanjab.

In parallel to the above, was the successful countrywide rollout of Internet Protocol / Multiprotocol Label System (IP/MPLS) network. With IP/MPLS in place, our broadband portfolio is evolving rapidly into



next generation IP products, with WiMAX, ADSL, 3G-EVDO and Metro Ethernet core services already available to consumers around the country.

Our new MPLS IP-VPN service is due to be operational by the first quarter of 2009 with full service available to customers. IP/MPLS VPN should allow us to provide our customers with a cutting-edge service which combines flexibility of the Internet and the security and reliability of private networks to cost-efficiently deliver quality IP performance with specific classes of service and industry-leading service level agreements. Utilising the most advanced technological solutions to provide maximum security, IP-VPN service seamlessly connects customers to their corporate headquarters, branch offices, remote users and business partners – all in a secure, highly-scalable environment.

Our technology rollout programme is playing a pivotal role in ensuring that Namibians have access to affordable and reliable broadband products and services.

#### **New Product Development**

In terms of new product development, our achievements are numerous. They include the introduction of EVDO data services, Fax2email service, Metro Ethernet services, Bulk SMS solution and a fixed mobile convergence product that allows for the call forwarding of calls from the fixed network to the Switch network. We also make it possible for Wireless Access Service providers to add SMS based content and competitions to our Switch product.

In the field of IT and business solutions, our achievements include the successful rolling out of a new point of sale system, upgrade of the SAP system, the setting up of an ICT Lab, international SMS to South Africa, connecting our first Metro-E customers, and a host of others.

#### **Legal and Regulatory Issues**

The past financial year has seen a rather fragmented and ad-hoc application of regulation and licensing with no clear and formal processes, guidelines and regulations. This has stirred the market and not for the better. The good news is that government engaged the industry in formulating the various ICT and Telecommunications licences, amongst others. The development and adoption of these policies give a sense of direction to the players and was therefore a positive step. I applaud the Ministry of Information and Communication Technology's intervention that put a halt to any new licenses being issued.

The Bill considers various issues ranging from abuse of dominant position, service and technology neutral licensing, promo-

tion of competition, and interconnection amongst others. Telecom made various submissions requesting the introduction of market segments and the regulation thereof, coupled with clear criteria, instead of merely deeming any operator as dominant. We trust that these matters would be resolved in the development of the industry and providing the much need certainty in regulation.

#### **Investment in SADC Markets**

Telecom Namibia participates in joint ventures in two markets in the sub-region where there is significant potential for future growth.

During the year, the ventures had mixed success with Neotel launching a full service portfolio and securing funding to build a world-class network in South Africa. The revenue potential for next year is about double that of Telecom Namibia itself, so in time we will reap the benefits.

In Angola, we have not been so successful and we could not get the show on the road. To date we are providing limited services to corporate clients with potential to grow in the medium term. A concerted effort in the coming year will be made to turn this situation around. In Luanda, the inner-ring network was commissioned and international voice traffic is currently delivered to local operators using Startel's network. This traffic is sourced from an international operator as well as Telecom Namibia.

#### **Outlook**

The next few years will be challenging, but we are confident that we are creating a business that is more agile, innovative and efficient.

The strategic challenges for Telecom Namibia for the 2008/2009 financial year is to improve the quality of service in a next generation network architecture and increase the number of broadband services to reduce the per unit fixed cost. The last step towards an all IP network architecture remains the migration from the EWSD exchanges to our soft switch towards 2010.

We will continue our growth strategy to create additional shareholder value and capitalise on the excellent foundations we have put in place over the last year. I look forward to another exciting year ahead and to the continued support of our stakeholders.



**Frans Ndoroma**  
**Managing Director**