



Managing Director's Report



I am happy to note that Telecom Namibia recorded another good year both financially and in terms of other key measures that underpin our financial performance.

The extremely competitive environment of the past year tested the company's resilience and the skill of its management and staff, but what has emerged is a profitable ongoing business that is now in a position to undertake significant growth, supported by a sound balance sheet and a clear strategic roadmap to improve overall business performance in the face of falling voice margins and significant competitive threats.

Strategic Roadmap

The telecom industry is marching forward into the era of broadband and mobility, within the next generation converged network based on Internet Protocol (IP) standard. Our Annual Strategic Workshop held at Walvis Bay in March 2006 took cognisance of this reality and decided to put Telecom Namibia on a new and exciting phase in its overall development.

The workshop directed the repositioning of the business towards 2010 - with the first main task of devising a five-year strategic roadmap. This challenging task was completed during June 2006. The strategic plan is a well-documented strategic blueprint that outlines the rationale, detailed design of the business model and implementation roadmap.

This strategic blueprint consists of:

- A documented strategic plan;
- A supportive strategic architecture (including business model);
- A market plan;
- A financial model demonstrating the impact of these changes to the business;
- A capability plan, addressing in particular the skills required by the business;
- An implementation roadmap.

The multi-year plan will see Telecom Namibia upgrade its traditional phone network (PSTN) to a fully Internet-capable network which is critical to achieving the goal of integrated and converged services. The planning of this long-term transformation programme began in 2006 and will continue with implementation in 2007. The main changes to the network and services will not start to take place until sometime in 2007.

Overall, Telecom Namibia is achieving its strategic objectives. The outlook is positive, and if all goes to plan, we expect further growth in profitability in the years ahead.

Financial Performance

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

Turnover for the year remained flat at just over N\$1 billion. Post paid call revenues decreased from N\$298 million in 2005 to N\$297 million this year. Prepaid revenues dropped from N\$65 million to N\$54 million.

The decline in call revenues was countered by healthy increases in data services which increased from N\$129 million in 2005 to N\$174 million this year.

Operating income decreased from N\$136 million to N\$131 million. This is mainly due to no real rises in revenue but increased operating costs in labour, marketing and sales costs and training. The benefits of this expenditure should be realised in the forthcoming years.

Net profits after tax amount to N\$78 million down by N\$7 million (or 8 per cent) from N\$85 million.

Telecom Namibia faces stiff challenges of defending market share in the face of ever-increasing competition and decreasing its cost structure base.

The amount spent on capital projects amounted to N\$169 million. These were all funded from own resources. The company's cash resources decreased by 10% mainly as a result of an increase in debtors from N\$122 million to N\$145 million. This increase is more as a result of internal inefficiencies rather than economic factors. If we are to spend the desired N\$1 billion in network upgrades, this trend will have to be drastically reversed.

Long-term debt decreased from its previous levels of N\$170 million to N\$120 million at year-end. This resulted in the equity to debt ratio increasing from 3,70 to 5,79 which primes us to be in a favourable position to raise the desired capital in order to achieve our blueprint 2010.

Regional dimension

Telecom Namibia expanded into the SADC region by acquiring stakes in Neotel (South Africa) and MundoStartel (Angola), as part of our efforts to expand businesses into lucrative neighbouring markets in order to enhance shareholder value.

I am happy to report that Neotel was finally launched in Johannesburg on 31 August 2006, while we expect MundoStartel to start operations during the second half of 2007.

Our decision to expand our operations in the sub-region has been taken in the context of the rapid economic growth of the two countries and our assessment of increasing growth potential in their huge telecom markets.

Accountability - challenges and opportunities

As we continue to transform our business we must maintain our vigilance on matters of corporate social responsibility. During the period under review, we have put in place a CSR framework that sets out our responsibilities to customers, employees, suppliers, local communities and the environment. In addition, we have developed a Corporate Social Investment Policy. During the year under review, we spent more than N\$4.2 million on various community-initiated programmes.

The big opportunity is to use our products and services to promote sustainability, not only in the way we run our own business, but by helping our customers to benefit too. Our biggest challenge is to extend our national reach to the far-flung corners of the country where the topography is rugged and complex, and the populace sparsely spread.

Adding value that benefits our customers

Our customers today expect more from us. We are constantly developing our existing products to ensure they remain attractive to customers and competitive in the marketplace and in 2005/06 we implemented several price reductions. Most significant were the reduction by 20 per cent in the cost of bandwidth lease and the introduction of special rates to Germany (50 per cent lower during off-peak periods) to coincide with the Soccer World Cup in Germany. Tariffs for international leased circuits were reduced by up to 20 per cent on 1 October 2005. Telecom Namibia has reduced the peak call charge of a long distance call from N\$0.99 per minute to N\$0.85 per minute, while the off peak call charge was reduced from N\$0.70 to N\$0.60 (all VAT exclusive) effective 1 July 2006. Tariffs of short distance national calls have been kept unchanged over the past few years.

We expect the trend for lower prices to continue and we will work hard to reduce charges where possible and to ensure that we offer competitive tariffs in our marketplace.

Being innovative and looking for better ways of working

Over the past few years, our traditional markets have faced major changes as competition has developed and new technologies provide alternative services. We have reacted to these developments by continuing to develop new products and services for our customers. In September 2006, we launched our revolutionary SWITCH mobile services, using CDMA technology. These will be complemented by high speed broadband services, using CDMA, WiMAX and ADSL technologies.

Our SWITCH mobile services offer the most affordable rates to customers. In addition, our new range of SWITCH services tariffs offer greater choice and value, with free call minutes and free texts messages.

Providing customer service excellence

We believe that meeting and exceeding our customers' expectations is the foundation for our continued success. Every customer interaction provides another opportunity to win loyalty, but it is not only the customer facing areas of our business that determine the level of service. Our people working in support roles provide the tools that are essential to enable us to deliver on time, and to the agreed standard. We invest heavily in customer care training, so our people understand the value of satisfying our customers' needs.

Total fault rate decreased from 351 faults per 1000 lines to 348, while total fault repair time improved from 2.82 days to 2.77. The total installation response time showed an 8.9 per cent improvement from 10.89 days to 9.92 days. The percentage uptime of Public Payphones is 92 per cent compared to 85 per cent the previous year. At the Customer Care Centre, abandoned call rate was reduced from 53 per cent to 5 per cent, while the quality of calls improved from 55 per cent to 80 per cent and service levels from 33 per cent to 74 per cent. In short, overall customer satisfaction rate stands at 78 per cent, and there is room for improvement.

Our strategy is to build on the strengths of our existing businesses. We will achieve this through further developing relationships with our customers and pursuing a vigorous programme of customer retention. In both markets the emphasis will continue to be on quality of service, strong marketing, innovative pricing and cost efficiency. Simultaneously we will seek and develop new business opportunities.

Skills - the lifeblood of our business

What make us special are our people. Their expertise and focus on understanding our customers and their communications needs and going that extra mile to satisfy those needs is what gives us our strength. We want our customers to understand that the Telecom Namibia brand represents service, value and innovation delivered by a great team.

It is crucial, therefore, for us to develop, recruit and retain the people that will enable us to keep leading the way. During the period under review, we invested about N\$10,8 million in learning and enrichment programmes to help our staff enhance their technical, commercial, supervisory and managerial skills.

Our vision for the future

To put it succinctly, by 2010, we want to be a regional benchmark in terms of quality of service.

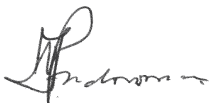
Our formal vision is to be the most preferred and successful Namibian ICT service provider. We use the word successful to relate to shareholders' financial and non-financial objectives. We use the word preferred to signify this in the eyes of our customers and employees.

We want to be an employer of choice and a company that customers like to deal with. Customers might not care if we are successful or not, but we want to be their preferred choice.

We also want to be a regional benchmark. So if anyone does a benchmark analysis in terms of quality, productivity, and satisfaction, then we want Telecom Namibia to be one of the companies that they should benchmark with. Hence, we want to be regionally known- and this also implies regional expansion

Thanks

Finally, I would like to record my thanks to my fellow Board members, to our management and not least to all our staff for their contribution to the continuing success and development of Telecom Namibia. Together we will face new challenges with confidence.



FJP Ndoroma
MANAGING DIRECTOR