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# vision, mission & values



**OurVision** To be Namibia’s most preferred, high-performance information communication technology (ICT) service provider of world-class standards.

**OurMission** To anticipate, understand and satisfy the telecommunications/ information needs and wants of our customers. We will address these demands through the development of solutions, sales and support of quality electronic, voice, data, image and text services at competitive rates.

**BHAG2010** Telecom Namibia is the trusted, first choice solution for communications customers, and towers head-and-shoulders above the competition.

We will double our \*EVA per employee and generate shareholder value through superior service to our customers at home, and by seizing opportunities in selected African regional economic markets. Furthermore, we are welcomed as a leading corporate citizen in the communities in which we operate because of our commitment to social responsibility. Our fast, simple and leading edge operations will serve as a benchmark for world telecommunications. We are well known for “doing things right the first time.” Therefore, we are an employer of choice, and our employees are recognised for their excellent performance and valuable contributions.

\*EVA - Economic Value Added using 2003 as a baseline.

- OurValues**
- Integrity** described as trustworthy by others and is known for being reliable.
  - Care** sensitive to the needs and happiness of others.
  - Commitment** a passionate determination for achieving goals.
  - Accountability** takes every task assigned to them personally, and ensures its completion.
  - Empowerment** proactively provides support and helps employees understand the company’s vision and strategic plan.
  - Teamwork** a team player that sacrifices personal needs to help the team as a collective succeed.
  - Mutual respect** acknowledges and celebrates the knowledge and achievements of others and is sensitive to other people’s rights, customs and wishes.

# General Highlights



The 2006/07 financial year was an eventful year for Telecom Namibia. The company celebrated its 15<sup>th</sup> birthday in August and this coincided with the full-scale implementation of our Strategic Blueprint 2010.

Telecom Namibia is well on its way to become an ICT service provider of world-class standards.

The company has established leadership positions in some key market segments and technologies with a proven organisation, a culture of innovation and accountability, and solid financials. We have delivered another year of profitable growth.

We are implementing Strategy 2010 to strengthen our ability to deliver sustained, long-term results.

## Portfolio

**Positioning our product portfolio for accelerated growth and profitability.**

The first pillar of Strategy 2010 focuses our actions on aggressively managing our portfolio to position the businesses for accelerated growth.

One key priority is to better leverage the strength of data products to continue contributing to our success. We are accelerating investments in broadband products to build on our leadership positions in the rapidly growing data space. Another important focus is on developing a number of new, high-growth potential businesses around mobility, speed and choice.

As we execute Strategy 2010, we will continuously phase out all legacy networks.

## Operational Excellence

**Expanding our efforts to accelerate continuous improvement.**

As we pursue demand growth by leveraging our portfolio, developing stronger capabilities and accelerating investments in product innovation, we are expanding our efforts to enhance margins and returns through operational excellence and continuous improvement.

We have made great strides in the area of operational excellence over the past five years, and we continue to see opportunities to improve. We're sharpening our focus on asset productivity and cost control, and are pursuing initiatives to reduce operating costs, and increasing the responsiveness of our business services by adopting to a new business model.

## Nurturing Talent

**Developing and deploying the company's strongest talent pool.**

No strategy succeeds without people. The skills, drive and commitment of Telecom Namibia employees have always been the fuel of our growth engine. A key element of Vision 2010 is to more effectively leverage our greatest strength to succeed in the marketplace.

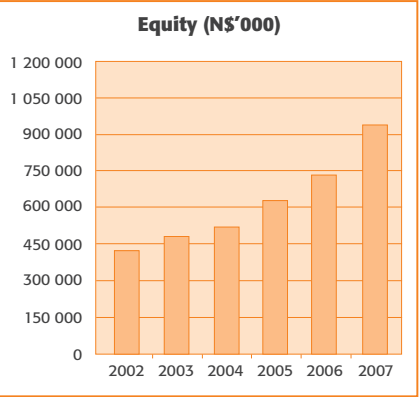
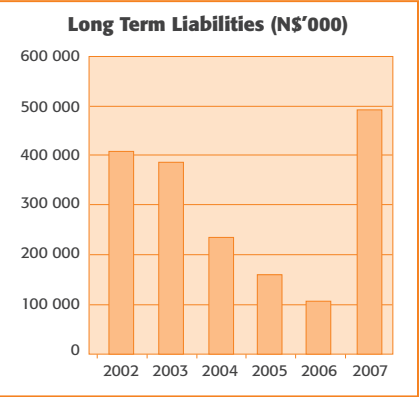
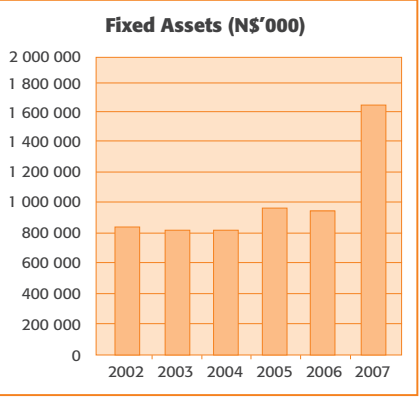
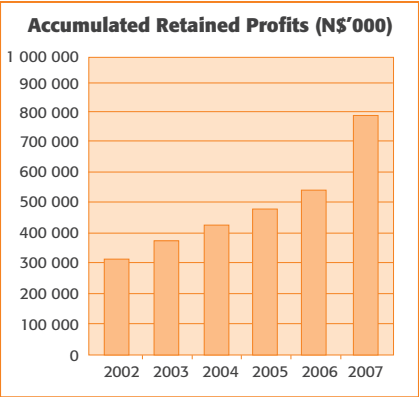
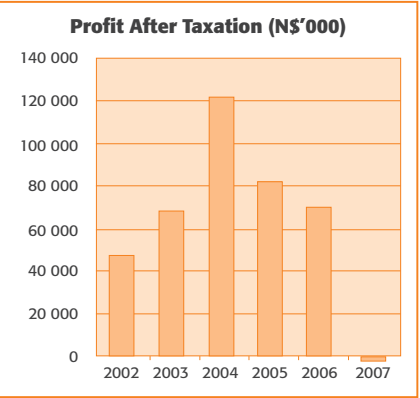
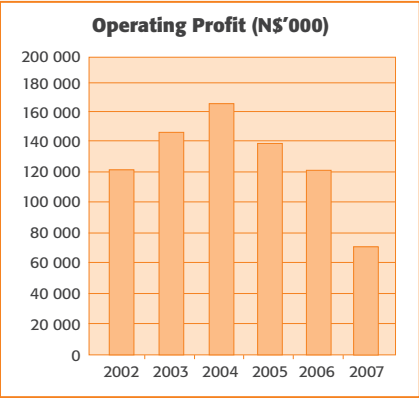
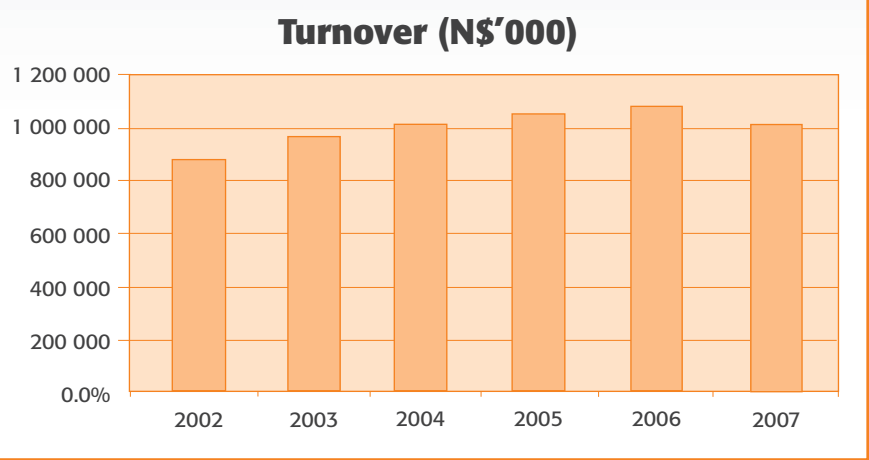
We are locating our best people in the right places across the country and giving them what they need to excel – putting management closer to the customer, streamlining decision-making and plan implementation, and enhancing recruitment of much-needed competencies.

By developing talent, we're positioning our people to thrive in the new Telecom Namibia – a multi-skilled adaptable and agile workforce focused on making Strategy 2010 a reality.

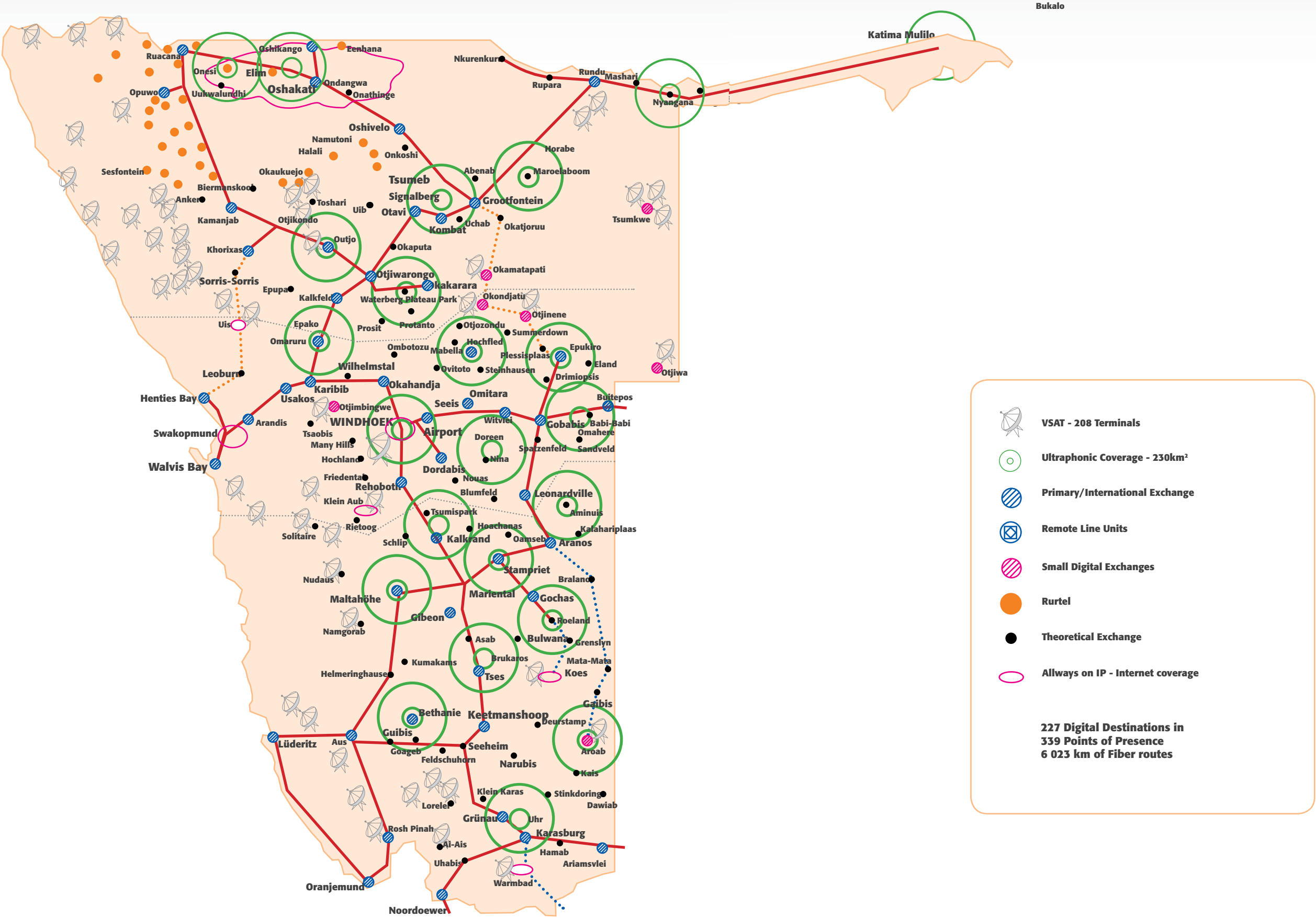
# Network Stats for 2006/2007

## Stats2000 - 2007

	2002	2003	2004	2005	2006	2007
Port Capacity (Network Switch Capacity)	175 016	177 876	185 564	195 023	208 178	223 328
Percentage Digital	100%	100%	100%	100%	100%	100%
Direct Exchange Lines (DEL's)						
Analogue, ISDN and DID slots (Inc. public telephones)	121 233	127 380	136 197	138 880	136 042	138 105
Manual	180	172	153	117	121	66
TOTAL (DEL'S)	121 413	127 552	136 350	138 997	136 163	138 171
Waiting List	2 578	3 321	2 571	3 521	3 844	17 808
DEL Penetration	6.5%	6.6%	6.9%	6.9%	6.5%	6.5%
Population	1 877 919	926 744	1 976 840	2 028 238	2 080 972	2 135 077
# of Public Phones	6 215 603	4 905	4 930	6 086	4 200	
Public phones per 1 000	3.3	2.9	2.5	2.4	2.9	2.0
Number of Households (Projected)	355 463	364 705	374 187	383 916	393 898	404 139
Penetration per Households	34.2%	35.0%	36.4%	36.2%	34.6%	34.2%







## Board of Directors



Mr Joseph Iita  
Chairman



Mr Frans Ndoroma  
Managing Director



Ms Feitjie Veldskoen  
Director



Mr Michael Mukete  
Director



Mr Roger Gertze  
Director

## Management



**FJP Ndoroma**  
Managing Director



**W van der Vyver**  
General Manager:  
International



**C Coetzee**  
General Manager: ICT &  
Corporate Business Solutions



**T Klein**  
General Manager:  
Corporate Strategy



**HP Bader**  
General Manager:  
Special Projects



**A Hauuanga**  
General Manager:  
Marketing and Sales



**L Hiwilepo**  
Acting General Manager:  
Network Provisioning  
& Assurance



**R Offner**  
General Manager:  
Finance and  
Administration



**C Wasserfall**  
General Manager:  
Services Provisioning  
and Assurance



**A Kanime**  
General Manager:  
Human Resources and  
Strategic Training



**S. Shanapinda**  
Acting Head: Legal Services  
and Company Secretary



**Dr. B van der Merwe**  
Head: Internal Audit  
and Risk Management



**O Angula**  
Senior Manager: Corporate  
Communications & Public  
Relations





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-



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**



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



# Operational Overview

One big challenge for the Namibian communications industry remains convergence. Worldwide, convergence is stimulating growth in ICT and ICT is stimulating economic growth. Implementing convergence in Namibia can lead to narrowing the digital divide and causing positive economic growth for the country.

Telecom Namibia is committed to address ICT convergence by developing and introducing ICT products and services into the market. Our company already offers high quality, reliable ICT technical solutions and business systems to enhance customer satisfaction, boost profitability and create shareholder value.

## New products and services

The telecommunications sector has seen major developments in terms of customer requirements with the emphasis on converged telecommunications solutions. There is increasing pressure for operators like Telecom Namibia to offer IP and IT related products and services and deliver fixed- mobile convergence services.

Telecom Namibia is responding proactively by developing and pushing into the market new products and services. Firstly, was the launch of a mobile service to address the mobile voice, data and SMS requirements of primarily fixed line customers. The technology that was selected and enables these services is called a CDMA 2000 1x-EVDO access network which is based on CDMA technology. The two distinctive advantages of this technology are fixed line quality voice services and Internet speeds that are higher than the existing maximum ISDN speed of 128 kbps to a maximum of 3100kbps, also referred to as a fully mobile third generation service or 3G.

The brand Switch was officially launched in November 2006 into the market. Since then, Telecom Namibia has continued to focus on the roll out of its prepaid platform of Switch and the launch of our post paid platform took place in July 2007. The mobile prepaid service addresses the needs of customers that want to use the service and simply recharge the airtime. The postpaid product caters for the voice and data communications needs of private and business individuals, complete with a variety of customised calling plans and packages.

Fast Internet connection required by both the residential and business market segments in urban areas is addressed by the Asymmetrical Digital Subscriber Line (ADSL). The product offers superior fast Internet connections for the home and office environments by using the existing copper line infrastructure on the premises, with the possibility of offering wireless Internet connection around the premises with the Wi-Fi technology. Fast Internet connection services are available from the elementary package of 256kbps to a very fast 2048 kbps for receiving information from the Internet, with a corresponding 25% for sending information to the Internet. Telecom Namibia has rolled out the service in Windhoek, Okahandja, Walvis Bay, Swakopmund, Oshakati, Ongewdiva, Ondangua and Oshikango as part of the initial phase.

Another fast wireless Internet service is commonly known as WiMAX. This was deployed to service the Internet and voice requirements of customers in areas with no ADSL services and also to replace legacy systems. Voice and data services are provided over very long distances and this can help with the provision of fast Internet services especially to the farming communities.

MetroNet is a Metro/ Wide Area Network (MAN/WAN) service which can provide up to gigabit for corporate, in particular. This solution is being deployed in Windhoek in the form of very high speed connection rings within the city's business area. The service will be extended to the regions to significantly reduce the total cost of ownership of

a link to our customers. These Ethernet connections will deliver high speed access to address the following dedicated and secure corporate requirements, namely: Point-to-Point, Point-to-Multipoint and Multipoint-to-Multipoint connections.

Telecom Namibia will be deploying points of presence (PoPs) in major towns with minor PoPs in the smaller towns. Connection to the customer premises is achieved through the different state-of-the-art access technologies, including direct fibre and copper terminations.

IP/MPLS service will equip all corporate customers with the possibility of having a variety of virtual private networks (VPNs) – national and international - with different quality of service (QoS). Customers will benefit from the distinct advantages of the network since most transmission protocols are converted to Internet protocol (IP) packets and switch at very fast speeds to their end destinations. Telecom Namibia will also be providing a variety of professional services which range from network assessment and optimisation to the provision of hosted services on its network on behalf of customers.

The request for content for both the fixed and mobile networks has commenced and will be completed in the coming year. Telecom Namibia envisages to delivering relevant content to both fixed line and mobile customers with the establishment of a fully fledged content aggregation portal and strategic partners to deliver both local and foreign content.

## Fixed Telephony

The fixed telephony or landline service still represents a significant area of business for Telecom Namibia even if growth in customer numbers is sluggish. However, Telecom Namibia voice business is under pressure from mobile operators. This trend is similar to that seen worldwide. Telecom Namibia launched its Switch prepaid and postpaid services which offer an attractive alternative for mobile telephony and data services at affordable prices.

Telecom Namibia voice business continued to record a slow and stable growth during the financial year as has been the case over the past few years. The introduction of ADSL and WiMAX access networks is expected to improve the growth in Direct Exchange Lines (DELs) for the coming years.

Local call revenue declined by 9% during 2006/7 compared to the previous financial year, contributing 23% to total call revenue. A decline of 10% in national call revenue was recorded in the 2006/7 financial year compared to the preceding year. Fixed to cell call revenue declined by 13% in the 2006/7 financial year compared to last year, contributing about 37% to total call revenue. The general slow growth rate in domestic call revenue is mainly as a result of a general decline in domestic call volumes of minutes and ongoing tariff re-balancing.

International outgoing traffic increased by 4% from 64.9 million minutes in 2005/6 to 67.6 million minutes in 2006/7. Outgoing traffic to South Africa accounted for 78% of total international outgoing traffic for 2006/7 with a growth of 2%. Despite the positive growth in international outgoing traffic, international call revenue continues to decline due to continuous downward review of international tariffs over the years.

Total traffic volumes for 2006/7 decreased by 1% compared to last financial year. Revenue from ISDN BRA increased by 11% in 2007 compared to the previous year. Direct Exchange Lines (DELs) increased by 1.5% from 136,163 in 2005/6 to 138,171 in 2006/7. Introduction of new value added services during the coming years is expected to improve growth of the voice business.

## Pricing and Tariffs

During the year under review, Telecom Namibia continued to re-position its pricing and tariffs system to keep up with challenges faced in a market where competition is on the increase. The tariffs re-balancing process supports Telecom Namibia's objectives as set out in the Strategic Blueprint 2010. The company introduced major tariff changes during the 2006/07 financial year most of which were aimed at making telecommunication services affordable to consumers and business customers and contributing to the economic growth of the country.

Fixed to cell peak tariffs were reduced by 10 percent during Q1 of the year under review, following a revision of interconnect charges for calls between Telecom Namibia and MTC networks. Another major achievement was a move from a unit based charging system to per second billing that was implemented on 1 October 2006. Per second billing was introduced

for both our postpaid 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.

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 postpaid 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.

From 1 January 2007, international IP bandwidth tariffs were reduced by up to 15 percent. A further 10% reduction in international IP bandwidth tariffs was implemented on 1 September 2007. International leased line tariffs were also reduced by 10 percent from 1 July 2007. 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.

On 1 October 2006, international call charges were adjusted downwards by an average of 15%. This included tariffs for calls to South Africa, Angola, and other neighbouring countries, Germany, the Netherlands, Sweden, Switzerland, USA and Rest of the world.

In addition, Telecom Namibia plans to implement an average reduction of another 14% in international call charges and -10 percent reduction in fixed to Inmarsat call charges from 1 October 2007. Basic telephone line rental charges will be increased by 10% while long distance (>200 km) leased line tariffs will be reduced by 13% effective from 1 October 2007.

International Services

International Links

Telecom Namibia provides customers worldwide with access to Namibia via high quality dedicated links for voice, data and Internet services. The quality of incoming calls cannot always be guaranteed as some originating parties do not provide high quality links to deliver calls to the main routes used by Telecom Namibia. Some operators use cheap VoIP circuits that are a best effort service. Telecom Namibia always offers Calling Line Identification Presentation to its customers when available. This is not present when a low cost route is used to make calls to Namibia.

The customer direct dial service is also complemented by friendly operator assisted services. Two centres, in Windhoek and Walvis Bay, cater for voice services to 242 destinations and to maritime and land based radio stations all over Namibia and its territorial waters.

International Traffic

International outgoing call volumes increased by four per cent to 67.6 million minutes in 2007. Traffic to South Africa has increased by 4 percent while traffic to neighbouring countries increased by 5% the previous year.

During June to September 2007 a special rate (50% lower during off-peak periods) was introduced to Angola to develop greater trade and awareness. Lower accounting rates were again negotiated with Telkom SA that also resulted in lower rates being passed on to the customers. To improve quality of service and increase traffic volumes, additional capacity was added to two satellite operators – one in the USA and another in South Africa.

International IP Link

Internet usage continues to grow strongly. We have dedicated international bandwidth to ensure adequate high quality connectivity to the World Wide Web at competitive rates. During the past year the regional and international capacity was doubled via links through South Africa and Europe.

The second licensed mobile operator started up services over Telecom leased links. The usage on all the routes is constantly monitored in order to do timely upgrades to ensure quality service to all our customers. Adequate capacity is maintained to ensure a service with no bandwidth oversell.

The IP bandwidth lease tariffs will again be decreased by 13% on 1 October 2007.

ICT and Business Solutions

Telecom Namibia offers high quality, reliable ICT technical solutions and business systems to maximise customer satisfaction and profitability as well as shareholder value. Through its ICT & Corporate Business Solutions, the company is taking the lead to manage the increased integration and convergence of the IT, IP and telecommunication industries within Namibia.

The company also provides and manages a wide range of products services to customers by ensuring that state-of-the-art products and systems were available and delivered to the local Namibian market. The product and service offerings focussed on Internet Protocol (IP), narrow and broadband data, videoconferencing, structured cabling, e-commerce, ICT consultancy, Co-location services, Disaster Recovery Centre facilities, virtual private networks (VPN), LAN, WAN, Intranet & Extranet services and other value added ICT products and services.

Products and services are bundled to satisfy the needs of the customers per segment. Customised solutions are offered by addressing each customer’s individual needs and wants.

iWay – Internet services

iWay, Namibia’s leading Internet Service Provider (ISP), has shown positive growth despite tremendous competition within the ISP space. iWay services include Internet access, web hosting and development, domain administration and e-mail services.

The ISP model is constantly changing with e-mail addresses and web space becoming free items on the ISP’s bill. Revenue is being generated from other value-added products and services and the signing of service level agreements (SLA) with customers. However, customers continue to demand more for less money.

Although market share battle within the Namibian ISP market will continue, the emphasis should also be on increasing ICT penetration countrywide. Major ISP and ICT players should not only embrace change, but also support initiatives such as the Xnet Development Alliance Trust to increase Namibia’s Internet penetration rate..

Infinitum and Telematics (IP and DATA)

Telecom Namibia’s IP backbone is the largest IP backbone in the country and was recently upgraded to be a carrier-grade IP/MPLS network that is capable of delivering next generation network (NGN) ICT products and services. During the past year Telecom Namibia continued to make huge capital investments to expand the international Internet connectivity through global Internet carrier partnerships with SAIX and Intelsat.

Telecom Namibia recently became the first Service Provider in Emerging Africa (excluding South Africa) to achieve Cisco Powered Programme Membership Status. High levels of quality, reliability and customer satisfaction have enabled Telecom Namibia to qualify for Cisco Powered Network (CPN) designation. The CPN endorsement follows closely on Telecom Namibia receiving “The Best IP Network of the Year” Award at the Cisco Networkers Conference held at Sun City, South Africa earlier this year.



Customer Premises Equipment (CPE)

Telecom Namibia provides a wide range of products, installation and maintenance services for the private branch exchange (PBX) market. Our CPE and PBX offerings include a wide range of PBX, PBX management and least cost routing (LCR) products and services. Telecom remains highly competitive in the CPE and PBX market due to the fact that we continuously invest in top quality technology and solutions through partnerships with leading brands such as Siemens.

ICT Consulting and Design

The company's ICT consultants and project managers are focused on technical network optimisation, network design, customised solutions and project management to address the ICT needs of our current and potential customers.

Service Provisioning and Assurance

Quality of services (QoS), the means of describing and gauging network performance, is very important in our operations. Over the years, we have been measuring network performance in terms of four parameters: network availability, error performance, call completion and connection setup time.

The dynamics of today's telecommunications industry have created new QoS issues and a stronger need to manage QoS. That includes voice and data convergence, Internet effect, multi-domain nature of networks, and service level agreements (SLAs).

With data traffic overtaking voice traffic, the need for integrated and efficient multi-service networks has given rise to the reality of converged voice, data and Internet application networks. Therefore, Telecom Namibia is implementing projects and programmes to address this convergence from the multi-service perspective of voice, video, and data applications and their associated service guarantees, ranging from "best effort" to virtual circuit quality.

Service Delivery and Assurance

In the area of service delivery and assurance, Telecom Namibia recorded improvements in the level of QoS and the average efficiency performance statistics for the year are as follows:

- Total Fault Rate remains unchanged at 348 faults per 1000 lines.
- Total Fault Repair Time improved by 3% from 2.77 days to 2.68.
- Total Installation Response Time showed a 15% improvement from 9.92 days to 8.42 days.
- The percentage uptime of Public Payphones remained at 92 percent as in the previous year.

Copper Theft

Copper wire theft remains a big concern which undermines service reliability as well as revenue assurance. Rampant thefts of copper wire and widespread acts of vandalism of the network have had serious repercussions on service assurance. Special security measures were introduced, especially in secluded and isolated areas. The primary cable network especially in Windhoek is protected with a preventative management system that monitors any break on the insulation layer of the cable before the copper pairs are damaged. This measure, in most instances, has helped to avert possible damage or theft of large cables. The rolling out of the preventative management system to other towns countrywide remains a management challenge.

Preventative Maintenance

Preventative maintenance is a core activity. Copper networks, especially in the urban areas, are currently being rejuvenated to meet requirements to deliver quality ADSL services. The rejuvenation projects in most urban areas were successfully completed. However, there is still much to be done over the next two years.

Obsolete technologies such as SOR-18 are being replaced with either CDMA or WiMAX. To date, more than 50 CDMA sites were deployed and a further 25 sites will be rolled out during the next financial year. The rollout of copper network

is restricted to business areas and no replacement of stolen copper network is done unless it involves businesses with high speed data requirements.

Customer Satisfaction

Telecom Namibia conducted a survey on customer satisfaction for 2007. This survey gathered valuable information from across our customer segments to help us improve our services to the market. This survey revealed an overall satisfaction rate of 70.5 per cent, which is 7.5 points down from the previous year.

Despite the slight drop in customer satisfaction levels, Telecom Namibia's business and support divisions are committed to respond efficiently to the market, adjusting all service offers and solutions to the needs revealed by each customer and ensuring the continued delivery of subscribed services.

During the year, we extended our offer of products and services to make available to customers a larger diversity of solutions and tariffs that might simultaneously reach a greater number of customers and increase the satisfaction level in the use of products and services. The presented solutions are related mainly to broadband products/services and convergent fixed/mobile services, as can be observed on the website [www.telecom.na](http://www.telecom.na).

Customer Contact Centre

Points of customer interaction are crucial in determining Telecom Namibia's future and sustainable success in the market-place. Customers not only want but demand both speedy service provision and efficient and satisfying service assistance. In today's world, the "face-to-face" interaction is as important as the service via the phone and via the web, typically delivered by customer contact centres.

In 1996, Telecom Namibia established its own Customer Care Centre (CCC) exclusively for Telecom Namibia's customers, offering telephonic assistance on technical and account enquiries, in particular.

In 2006, the company decided to progress from the limited scope of a "Customer Care Centre" into a world-class standard "Customer Contact Centre". The scope of the new CCC includes maximally efficient customer service delivery to our own customers. In addition, it will enable Telecom Namibia to run outbound telemarketing campaigns and to ultimately offer hosted solutions to other domestic market players. With this strategic outlook, Telecom Namibia will take a lead in opening the call centre industry market in Namibia that holds a promising potential for job creation.

The new Customer Contact Centre – which will be launched in January 2008 - operates on an entirely new set of internal processes and adheres to international industry standards. State-of-the-art Call Centre technology was acquired and a new facility was occupied. To manage the performance and ensure achievement of set targets, an international Call Centre operator focusing on the Telco/IT industry was engaged as a partner. The new CCC will operate on one central number for all service assistance countrywide.

Directory Services

Traditional directory services are affected by the changes in the industry just as products and services. The on-line directories are gaining strong momentum as compared to the traditional hardcopy directory. During the period under review, Telecom Namibia particularly continued to make inroads towards the search ability of the online directory, resulting in significant improvements when searching for information.

The main objective of the Telecom Namibia Directory, whether online or traditional hardcopy, is to offer up-to-date, complete and accurate customer information that is easily accessible. Telecom Namibia carried out an initiative to make public services information more accessible. The former green Government Section was split into a Red Section – especially for practical information such as birth certificates, passports, licenses etc. - and a Green Section for general numbers. The recent re-alignment of ministries, agencies and offices is thus well reflected in the new directory. Other initiatives focused on the enhancement of the Medical Services Section with additional categories and the newly created emergency numbers in the first pages of the directory. A decision was taken to include entries of interested Switch customers in the next phone book.

International Ventures

Angola

Investments

Capital investment of U\$9.7 million for the initial start-up network of Mundo Startel (StarTel) was made in Luanda in Angola during the year. Telecom Namibia owns 44% of StarTel and 56% is owned by Angolan partners. Shareholders’ loans to the amount of U\$13.8 million were granted by the shareholders for ordering the NGN equipment for phase one which covers the roll out of the network in Luanda. Financial institutions for financing the rollout of the network in other parts of Angola were selected and one local and one regional bank were successful.

Infrastructure

StarTel has rolled out a full IP next generation network in Luanda and will continue the roll out throughout Angola over a period of five years.

The access to customers is initially based on WiMAX technologies. StarTel will establish its own international and national links with redundancy but will also interconnect with existing terrestrial networks by incumbent operators.

The network components were ordered from and delivered for installation by ZTE, a supplier that was selected via public tender. The final network roll out will cover all 18 provinces of Angola. The rest of the rollout is planned in phases and will follow on demand from customers. The network is anticipated to be ready for services by the end of Q1 in 2008.

StarTel has recently moved into constructed accommodation for the NGN network and office space for the employees. This building is now completed after it was seriously delayed by shortages of materials from neighbouring countries. The building was ready for handover by mid September 2007. Installation of the NGN commenced earlier when the technical part was completed in the first half of 2007.

Constraints

- Angola specific issues seriously delayed the project. These issues are:
- Approval to start the power connection to the building
  - Importation of material and network equipment at the Namibian/Angolan border and at the Luanda port.
  - Frequency spectrum requirements where StarTel has to share with another operator.
  - The acquisition of sites throughout Luanda and the availability of power and the supply thereof to the sites.
  - The lack of material for site construction and qualified labour.

South Africa

The Second Network Operator in South Africa was partially launched in Johannesburg on 31 August 2006 under the name Neotel. During 2007 Neotel launched its wholesale international services. Wholesale customers of Neotel are able to enjoy the advantages of Neotel’s service quality and price benefits on the main Gauteng, Cape Town, and Durban routes. Neotel expects to have its first enterprise and SMME customers connected by the middle of Q4 of 2007.

In February 2008, due to the delays of the InfraCo network supplied by Government, Retail Services will begin with a limited number of wireless customers in the major metros of Johannesburg, Pretoria and Cape Town. Vendor selection for each technology is done through a robust process to ensure that Neotel can provide the latest services at competitive prices. As the strategic equity partner TATA will ensure early market entry and enforce world standard pricing from the local suppliers.

Telecom Namibia is adding value through its local knowledge of serving African customers with appropriate product offerings. Due to the delay and uncertainty with InfraCo the cable capacity on SAT-3 could still not be accessed as yet. This will again be actively pursued when the initial landing monopoly ends in November 2007. To ensure adequate international

capacity, Neotel and Telecom Namibia are also pursuing capacity on the SEACOM cable to be built along the East Coast to France and India and due for completion by 2009.

Network provisioning

Telecom Namibia has a Network Provisioning and Assurance Division whose key role is to develop and manage the network infrastructure, implement projects based development and ensure the technological suitability and operational sustainability of the network infrastructure for both internal and external users/customers.

This entails the formulation and implementation of technological strategies and their effective integration within existing network infrastructure and the convergence of technologies within Telecom Namibia towards a common technological standard and overall coherence in technologies used. This should result in a higher level of network integrity and reliability within the context of high efficiencies.

Furthermore, the development and management of appropriate supporting capacity in terms of performance monitoring and refinement, operational maintenance and fault repair services, projects planning and implementation capacities in the various technological areas as well as the capacities to provide security, power and utilities at operational sites.

Capital expenditure

Total capital expenditure for 2006/7 of N\$346 million increased by N\$186 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 which entail the following:

- Meet statutory and contractual obligations and to sustain existing service performance.
- Invest in technologies required to deliver next generation services and products, including the development of customer management systems and establishing new technology management capability.
- Extend network coverage, augment capacity in line with strategic business growth (e.g. growth in broadband and mobile) and deploy new technology capabilities needed to deliver services cost-effectively,
- Develop service-specific and customer service systems needed to deliver, grow and sustain retail services. This includes customer premises equipment investment, developing contact centre and customer service systems and capability and other retail channel investment.

Strategic Projects

During the year, a number of projects were taken up for implementation and most of the projects are progressing on schedule. These were identified as “strategic projects” as they are deemed crucial to meeting the 2010 targets in the company’s Strategic Blueprint. The projects included the following:

IP/MPLS: The first equipment was installed by March 2007 and powered-up at all 13 points of presence (PoPs) country-wide, with new high-capacity fibre cable networks installed to and from each super PoP site in Windhoek to guarantee a fully meshed interconnecting network of 10Gig capacity with full ring protection capabilities. The national PoPs are interconnected by Telecom Namibia’s national fibre cable SDH backbone on the current STM-16 (i.e. 2,5Gig) level, but that network is also in process of being upgraded to STM-64 (i.e. 10Gig) capacity and being ring protected. The migration of all networks to the MPLS backbone was finally started in September and is in progress.



**MetroNet:** Rolling out of a MetroNet infrastructure was started together with the upgrading of the existing Digicon network. As both networks utilise the Tellabs equipment the upgrade was essential to ensure optimisation of such equipment. While contract negotiations were in process, already critical equipment were delivered, installed and commissioned to allow the interconnecting of the parallel running ADSL project. The Windhoek MetroNet now provides the required routers at the four super PoP sites and is fibre cable ring protected. At that time the new ADSL network was re-arranged to be aggregated by the MetroNet routers which drastically improved the ADSL services in Windhoek.

At Wavis Bay and Swakopmund as well as Oshakati and Tsumeb the same new standard of aggregations were commissioned just on time for ADSL.

To meet the demand for secured and protected IP networks/services, a new high-capacity fibre cable infrastructure was implemented in Windhoek. About 96 km of fibre cable was installed with related termination equipment to create essential fibre cable rings to the super PoP sites as well as the DRC (Disaster Recovery Centre) at Pioneers Park. This MetroNet network will continue to be rolled out as per demand.

**ADSL:** Under this project, 80 sites are to be equipped with DSLAMs, the connecting equipment for customer lines, of which 29 sites are in Windhoek. By March 2007 the first 200 services were connected in Windhoek and by September 2007 the ADSL services were also available in Okahandja, Walvis Bay, Swakopmund, Oshakati and surrounding major towns, Tsumeb, Grootfontein and Otavi. The remaining northern, western and southern towns were to follow before end 2007.

To date more than 1200 services have already been connected with soaring demand, especially for enhanced internet connectivity.

**WiMAX:** This WiMAX technology is Telecom Namibia's first true IP-compliant and NGN-ready access network complying with global trend and best practices. WiMAX systems will be rolled out countrywide to replace old technologies, reducing operational costs and providing high-speed internet services to rural areas.

This technology is used at the bigger towns as an overlay network to provide wireless high-speed data services equivalent to ADSL in areas with insufficient or no copper cable infrastructure. This wireless access system is mainly to be rolled out in rural areas to provide high-speed data services and voice services over long distances. It is also used to replace obsolete wire-based technologies like Magnolia and SOR-18 as well as redundant wireless systems such as DECT, Ultraphone (the only current long distance radio system) and MGW which are not high-speed and Internet compliant anymore.

To date the entire Windhoek is covered as well as 10 rural sites with long distance coverage (at least 60km) are in service while another 11 sites are in the process of acceptance testing or final construction works.

Together with ADSL, for the first time Telecom Namibia provides "always-on fixed internet packages" at a monthly flat rate and customers therefore do not need to first dial up their relevant internet service provider (ISP) by the well-known 0700 numbers. To the end user this reduces costs drastically and encourages usage by the total community/population.

**CDMA (SWITCH):** Following the deployment of the CDMA 2000 1x/EVDO wireless access system, Telecom Namibia then successfully launched the new mobile product Switch in November 2006. This standard system provides for voice service as well as 1x data service with standard data speeds up to 158kb/s. An additional hardware and software, Rev-A, allows for 3G-plus data speeds up to 3.1Mb/s.

Due to complaints from mobile operators, the Government restricted Telecom Namibia's Switch product on 28 February 2007 for an interim period of four months. But, up to date the product is severely handicapped with negative impact on business. Irrespective of such regulatory decisions, Telecom Namibia rolled out the CDMA infrastructure and to date 53 sites are operational countrywide.

Although the original system was delivered with 12 base stations on Rev-0 version, all these stations have now been upgraded to the latest Rev-A version to provide the popular always-on 3G-plus data package for 3.1Mb/s mobile services.

This platform offers post- and pre-paid voice and data services at very attractive rates close to fixed line services.

**EWSD Switches upgrade to V.17 software version:** Another project running parallel was the upgrade of all EWSD switches to the latest V.17 software and hardware standards and thus preparing the total national platform for IP and NGN connectivity and making it 2010 compliant. To date all local primary exchanges as well as the international gateways have been upgraded and also interfaced to the 24-hour TMN Centre via the NetManager.

As a first step, the IDU gateway will get a soft switch with 3x Media Gateways. The equivalents at WGG for redundancy will follow suit. At the same time, an interconnect billing facility was added for automated and detailed call records and billing to interconnecting operators. This is a tedious manual process and only total counters are available.

**Fibre Ring Networks & SDH Transmission STM-64 upgrade:** Telecom Namibia's national fibre cable backbone network operated on SDH-STM-4 level in a star configuration countrywide until 2005. Then the capacities were saturated and the star network provided no protection at all in cases of network down time.

Therefore, in the 2005/6 financial year, the backbone routes south of Windhoek and to South Africa were closed into ring networks as well as north of Otjiwarongo up to Oshakati. At the same time the transmission capacity was upgraded to STM-16 levels (equal to only 2.5Gig capacity).

The implementation of NGN infrastructure by 2010 as per the Strategic Blueprint demands totally protected ring networks for a proper IP/MPLS backbone network and this network is implemented for a 10Gig capacity. Additional capacities are in critical demand for bandwidth hungry Internet/data services as well as for both mobile operators' network roll-out. Therefore the remaining gaps in the national fibre network are being closed as a matter of urgency. These are:

- Omaha: The Epukiro–Grootfontein area is to get an aerial fibre backbone infrastructure to close the Windhoek–Otjiwarongo unprotected route. The transmission infrastructure is provided with STM-64 (equal to 10Gig capacity for MPLS) and this is extended all the way to Walvis Bay via Buitepos and Windhoek. These fibre routes construction works are about 90% completed while the four required sites are now in the implementation stage. At the existing sites the STM-64 transmission equipment is already installed. Simultaneously this new backbone route now allows for new stations at Otjinene, Okondjatu, Okamatapati and Okatjoru to implement the CDMA and WiMAX wireless access systems in these areas for automated and modern customer connections and services, especially internet services to the rural communities. For efficient long distance coverage, high (150m) masts are required and these will only be completed by early 2008.
- Erongo: At first the Swakopmund–Walvis Bay fibre cable backbone route had to be re-routed and a new aerial route was constructed along the railway line behind the dunes and cut over on 22nd September 2007. Now the very first step of the required Erongo backbone ring is completed up to Henties Bay. For the remaining gap from Henties Bay to Kamanjab, the planning and design works are completed and tendering and ordering stages have been reached. With this Erongo backbone ring the villages Uis, Okombahe and Omatjete will be connected to the infrastructure and CDMA and WiMAX wireless infrastructures will be implemented, including the Sorris-Sorris area. This backbone ring must be completed by mid 2008. Prior to that period, the existing Kunene transmission capacity will be upgraded to STM-64 level. Together with the Omaha ring network, a total northern high capacity figure-eight backbone ring will be obtained with maximum capacities and reliability as per 2010 Strategic Blueprint requirements.
- Kalahari: The planning and engineering of this crucial fibre backbone link will be completed by the end of 2007 after site surveys are completed. The backbone will connect at Aranos and will be rolled out southwards via Mata Mata border post, Koës, Aroab and finally connect again at Ariamsvlei. Along that route new sites will be established for WiMAX wireless access systems for rural automation and replacing the total redundant wire based technologies. This project is dependant on availability of funds – only expected to be approved late next year.

**OSS/BSS:** These Operation and Business Support Systems are IT and management systems necessary to operate the networks and to support the business processes. The integration of the OSS/BSS ensures an end-to-end view of all

networks and supports network/services management and billing/revenue collections.

OSS/SS systems are strategic assets to Telecom Namibia, which requires that all network elements are up and running and that billing is done correctly after proper verification.

The HP Storage Area Network (SAN) platform was successfully upgraded and the storage capacity was expanded from 800GB to 22TB (22 000GB). The TMN platform was upgraded to the Netcool standard and all new networks (ADSL, WiMAX, MPLS) are directly interfaced to TMN for alarm and remote supervision. The total national network is being monitored centrally at the TMN Centre 24 hours around the clock. A new post paid billing for CDMA was taken into commercial use by launching of the Switchself and Switchbiz products.

The interconnect billing (to other operators) together with a report writing tool is in the acceptance testing stage for completion before end 2007, while the EWSD switch audit with automated comparison with the ICMS billing system should be concluded before end 2007.

The Visional package on the TMN platform was upgraded and expanded to accommodate all newly added networks as well as for allowing automated networks inventory (necessary for auto activation). The Trouble Ticket platform was approved and implementation is in process.

**Walvis Bay tower and Backbone to new Langer Heinrich Mine:** This is another critical project carried out during the year. With the opening of the Langer Heinrich Mine (LHM), initial services were provided via VSAT. At WVS, Walvis Bay Radio Station and LHM new towers were provided while a fibre cable backbone was implemented to the radio station. A radio system continued then via Hamilton to LHM. This radio system was in service at the end of 2006. The new tower at WVS was immediately utilized for CDMA / SWITCH as well as WiMAX at that town. The old tower had reached its end-of-life and had become a serious safety risk on site and was dismantled. The new tower at the radio station is also utilised for the new maritime GMDSS (Global Maritime Distress and Safety System) system implemented during the year under review.

# Human Resources

The company's diversity and complexity in people resources and technology- and also expanse presents a stimulating challenge in Human Resources Management unique to an ICT company characterised by increasingly sophisticated systems and technology.

With this comes a responsibility to ensure our people have a safe and supportive working environment where their passion for creating a vibrant company is fuelled by our commitment to realise our Strategic BHAG 2010 which aims to turn Telecom Namibia into the most preferred, high performing ICT service provider of world-class standards.

Strategic initiatives during the 2006/7 financial year included alignment of the total business performance management system, employee / performance recognition schemes, Multi-skilling / Career Paths Scheme, Succession Planning and Talent Management. The initiatives seek to provide for a systematic management of people development, performance and recognition.

## Staff Complement

Staff complement is generally decreasing, with total headcount standing at 1,263 compared to 1,306 the previous year. Although the number of full-time staff remained fairly stable, the overall staff complement picked up with the employment on fixed contract of Technicians-in-Training, Engineers-in-Training and casual workers.

During the period under review a total of 139 employees left Telecom Namibia. The majority of resignations were in the skilled and professional technical staff category, accounted for by rival operators who are not investing in training but rather opting to poach our experienced and high performing employees. The overall voluntary turnover rate is nevertheless within acceptable norms.

During the period under review, we successfully introduced and implemented the Retirement Counselling Sessions, to arm the prospective retirees with information and knowledge on the best approaches to invest the pension fund proceeds. Sixty four percent of the prospective retirees successfully attended. The session yielded a high level of interest the company intends to hold Retirement Counselling Session on an Annual Basis.

## Skills Acquisition and Retention

A total of 58 employees were recruited and filled only a quarter of the total vacancies available during the year. At least 232 vacancies remain unfilled, 86% of which are in the skilled and professional categories. Whilst the company has redundant staff in a few job categories, the majority of these employees do not have the required skills profile to fill available vacancies. Given the scarcity of ICT and engineering skills locally and in the region as a whole, the Company strategy is training and development in mission critical core skills as this presents the only sustainable approach to resourcing the business with the requisite technical skills.

Parallel to this, a Graduate Recruitment Programme was implemented to draw high calibre students from reputable institutions of higher learning and to provide attachments, on-the-job development and fast tracking opportunities. A campus-based recruitment strategy was also initiated and visits and presentations were made at both the Polytechnic and University of Namibia. Arrangements have been made to visit Technikons and Universities in South Africa in the new financial year targeting Namibian nationals to build a relation and awareness of opportunities in our ICT company.

Telecom Namibia participated in career exhibitions at secondary schools and institutions of higher learning where we explained to students the career opportunities within the ICT industry in an attempt to influence students to study for employment in this industry.

A headhunting intervention was also implemented providing Telecom Namibia staff with an opportunity to refer high performers encountered in the past either in previous employment situations or in customer/supplier interactions. In

addition, expatriate staff from South Africa, Zimbabwe and China were recruited to fill engineering and ICT positions on 3-year contracts to mitigate skills shortage over the short to medium term. The expatriate staff are expected to transfer skills to existing Namibian nationals and graduates in training.

In pursuance of the strategic objective to become an employer- of- choice, the company continues to provide current employees with opportunities for development and growth. Out of a total placement of 71 employees, 21 of these employees were internally promoted representing 30% of total placement. at least 92% of the placement constitutes persons from the designated groups of which 34% were females, represented at supervisory, skilled and semi skilled levels of job categories.

Development of Staff

Developing our talent pool has also been a major focus of Telecom Namibia this year. We have placed considerable effort on identifying the core skills and attributes that our people need to have to become high performers. Individual training and development plans are being created for these people. A Telecom Namibia Training Plan, based on Individual Development Plans (IDPs) for 2006/7, was approved and formed the basis for addressing the identified and prioritised training needs.

During the year about N\$12.7 million, which represents 4% of the total labour cost, was spent on training for employees. A total of 2 363 employees attended competency-based training events locally and abroad, resulting in a total of 2 377 IDPs being addressed during the year against a target number of 1 860. Due to the huge demand for knowledge on new technologies we had to suspend training for a significant number of IDPs which were planned for 2007 to enable the Division to focus on addressing training on new technologies.

We are bringing new skills into our workplace through a leadership and management development programme provided by the University of Stellenbosch. Ten senior managers attended the Senior Management Development Programme, 20 middle managers attended the Management Development Programme and 20 supervisors attended the Junior Supervisory Development Programme. We are very pleased with the progress our graduates have made and look forward to welcoming a new intake of graduates in the new financial year.

Telecom Namibia has a partnership agreement with the Polytechnic of Namibia to develop and upgrade our Telecom Electricians to Technician status. During the year, 75 Telecom Electricians participated in the programme. Besides this, a total of 80 employees are currently participating in the company's study financial assistance scheme. These employees are upgrading their professional qualifications through tertiary institutions locally and in South Africa. Seven employees are attending full-time studies in South Africa.

A graduate development programme to develop graduates from tertiary institutions to either obtain full professional engineering registration status or to be Cisco professionally certified is in full swing. During the period under review, two candidates were recruited for in-house training as engineers-in-training and this brought the number of participants to seven. Other six candidates joined the engineering technicians-in-training scheme, while 12 others joined the IP/IT training scheme, bringing the total number of candidates participating in these programmes to 34. The annual recruitment of graduates for development into the Technician and Engineer streams has started paying off. Some of the graduates were able to learn and grow fast and subsequently appointed on a permanent basis. We will continue to recruit graduates on an annual basis in order to ensure sufficiency of these skills.

Telecom Namibia believes that it is only through human capital development that the company will remain competitive in the sector and be able to meet customers' expectations.

Employee Survey

Understanding our employee culture is instrumental to Telecom Namibia's success. In 2007, we undertook an employee climate survey to gain a greater understanding of our how our employees view our performance and to enable us to build on our strengths and identify key areas for improvement. This is a hallmark of our organisational development philosophy which is sensitive to employee perceptions, needs and wants.

The survey gave us an overall view of critical human capital issues impacting directly on the company's success and profitability. Among criteria judged were job satisfaction, leadership style, commitment/ morale, work atmosphere, training and development, rewards, recognition and performance management and company culture. The data obtained shows an overall satisfaction level of 68% in 2007.

The results show that staff morale is being adversely affected by a lack of growth opportunities in the company. This lack of growth opportunities compelled the company to formulate a Succession and Talent Management Strategy, a Promotion and Career Pathing Strategy and a Multi-skilling Programme to create growth opportunities. Career ladders were approved for the Telecom Electricians and the System Analysts, including the assessment criteria for these grades. The development of the multi-skilling curriculum, study guides and assessment material was also done.

Furthermore, positions requiring succession management were identified, while the process to identify potential succession candidates is underway. The Promotion Policy, which is strongly driven by individual performance and competence, will be implemented the next year, subject to an audit by the Performance Audit Committee.

Over the past year Top Management has put a number of initiatives in place to address some of the common themes highlighted in the survey including improved communication processes and celebrating our achievements.

Performance Management

There is major progress on performance management systems in the area of contract alignment. To pave the way for performance-based remuneration, notable progress was recorded to ensure the effective implementation and management of employees' performance. Performance contracts aligned to business strategy were drawn up and audited for all employees. The concept of Performance Audit Committees was embedded in the business and greatly enhanced the reliability and validity of performance ratings.

The company managed to organise the first ever Strategic Workshop on Organisational Performance during September 2007. This initiative was a success in realising the alignment of divisional scorecards to the Strategic Blueprint Plan, of the executive and senior middle management performance contract measures to the divisional scorecards as well as in providing an opportunity for customers, partners and stakeholders to evaluate the basis and quality to performance measures applied at the levels of Senior Management and Top Management as well as Managing Director.

As part of its annual tradition to recognise and reward excellent performance, the company hosted a Performance Award Dinner, a highlight in the company calendar since 2002. The aim of the award is to give appropriate recognition to employees who perform exceptionally well and contribute immensely to the achievement of the overall targets of the company as a whole. A total number of 50 employees were recognised at last year's function.

Cost Management

The paradox that Telecom Namibia is continually faced with is the need to manage labour costs while the company has simultaneously to attract required skills and pay such skills competitive packages. The company's labour bill as a proportion of total expenditure is still high compared to the industry benchmark of around 40 %. However, during the year Telecom Namibia was again able to restrain an increase in labour costs through the implementation of the Optimum Employment



Level exercise in close consultation with all relevant stakeholders. The successful implementation of this exercise paved the way for the future review of staffing levels to realise competitive optimum levels of employment. A total of 64 employees voluntarily separated from the company. The pay out in this exercise was N\$30 million and a saving was already realised from the exercise, providing an opportunity to recruit much needed ICT skills.

In an attempt to minimise the leave liability on the balance sheet and free up resources for essential business initiatives, employees were allowed to encash leave days on a once-off basis. The implementation of this exercise was conditional upon employees agreeing to have their employment conditions of service altered by having the maximum number of leave days that can be accrued reduced from 60 to 22 working days. The effect of this exercise on the balance sheet has been positive.

In addition, a draft model on outsourcing for Telecom Namibia as an enterprise was formulated. This business outsourcing model will be implemented in the next year pending approval.

### Employee Relations

As part of the efforts to nurture and deepen our partnership with organised labour, Telecom Namibia continues to engage employee representatives on issues affecting the interests of both the company and its employees. This is achieved through regular consultation sessions with employee representatives.

During the year, a new Union leadership was elected to hold office for the next three years. As with every new leadership, the relationship virtually has to take a dip and start afresh. The company continues to mitigate this downswing by contributing towards the training of shop stewards in key issues of industrial relations to maintain the quality of union-management engagement.

### Employment Equity

Good progress was recorded in the area of implementing the affirmative action (AA) policy. The company managed to attain an Employment Equity Commissioner's certification for another year in a row since we started submitting AA Plans to the Commission since 2004. During the year, an award was bestowed upon Telecom Namibia by the Ministry of Health and Social Services as 'The Best Employer of People with Disabilities' (Private Sector 2nd runner up) in recognition for giving people with disabilities an equal opportunity in employment.

Notwithstanding the achievements, we continue to face the challenge of not being able to locate and attract suitably qualified women and physically challenged individuals. This is however being addressed through our external bursary scheme. A new Affirmative Action Committee was also established which will spearhead the development of Telecom Namibia's AA Plan for the next three years, and for submission to the Equity Commissioner in the new financial year.



Financial Statements

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No directors’ report is presented as the group is a wholly-owned subsidiary of Namibia Post and Telecom Holdings Limited, a group incorporated in Namibia.

Corporate Governance Statement

by the Board of Directors

Telecom Namibia Limited and its subsidiaries are committed to the principles of integrity, safety, professionalism, transparency, responsibility and accountability and the directors recognise the competitive need for management to conduct the business of the group accordingly and in accordance with generally accepted corporate practices and in keeping with the group’s policies and the laws of Namibia.

Board of directors

The board meets regularly, retains control over the group and monitors executive management. The board reserves to itself a range of key decisions to ensure that it retains proper direction and control of the group. The roles of the Chairperson and Managing Director do not vest in the same person and the Chairperson is a non-executive director. The Chairperson provides leadership and guidance to the group’s board, encourages proper deliberation of all matters requiring the board’s attention, obtains optimum input from the other directors and ensures all decisions of the board are clearly worded and are likely to advance the group’s interests.

Non-executive directors

The board has five non-executive directors. Non-executive directors are appointed by the Cabinet for specific terms and re-appointment is not automatic.

Executive directors

There is one executive director on the board. An executive director’s service contract does not exceed five years in duration, except where a longer period has been approved by the member at a general meeting. There is full disclosure in the notes to the financial statements of emoluments to directors.

Group secretary and professional advice

All directors have access to the advice and services of the group secretary, who is responsible to the board for ensuring that board procedures are followed. All directors are entitled to seek independent professional advice about the affairs of the group and at the group’s expense.

Internal control systems

The group maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposition, all designed to provide reasonable assurance to the group’s management and board of directors regarding the preparation of reliable published financial statements and the safeguarding of the group’s assets. The system includes a documented organisational structure and division of responsibility, established policies and procedures which is communicated throughout the group and used for the proper training and development of its people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

Corporate Governance

The board subscribes to the principles of transparent and honest corporate governance. The following committees assist the group with the compliance thereof: Audit committee, executive committee, remuneration committee and risk management committee.



## Statement of Responsibility

by the Board of Directors

The directors are required by the Namibian Companies Act, 1973, to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company and the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the group will not be a going concern in the foreseeable future based on forecasts and available cash resources. The viability of the group is supported by these financial statements.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders and the board of directors. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 41.

The financial statements set out on pages 42 to 77 were approved and authorised for issue by the board of directors on 9 September 2008 and are signed on their behalf by:



**Chairperson**



**Managing Director**

## Independent Auditor's Report

to the Member of Telecom Namibia Limited

We have audited the annual financial statements and group annual financial statements of Telecom Namibia Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 30 September 2007, the income statement and the consolidated income statement, statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Directors' Responsibility for the Financial Statements*

The Group's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Namibia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

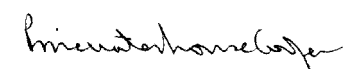
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as of 30 September 2007, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Namibia.



**PricewaterhouseCoopers**  
**Registered Accountants and Auditors**  
**Chartered Accountants (Namibia)**  
**Windhoek**  
**Date: 9 September 2008**



## Balance Sheets

for the year ended 30 September 2007

	Notes	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Plant and equipment	<b>7</b>	1 437 932	1 227 448	1 437 932	1 227 448
Investment in subsidiary	<b>25</b>	--	--	57 191	24 045
Loans advanced	<b>27</b>	13 785	3 745	--	--
Investment in associated company	<b>26</b>	75 205	28 760	95 140	34 326
Derivative financial instruments	<b>29</b>	20 559	26 602	20 559	26 602
Finance lease receivable	<b>31</b>	12 960	11 917	12 960	11 917
Investments	<b>8</b>	67 470	78 940	67 470	71 943
Intangible asset	<b>28</b>	13 246	13 246	--	--
		1 641 157	1 390 658	1 691 252	1 396 281
<b>Current assets</b>					
Inventories	<b>9</b>	52 614	25 414	52 614	25 414
Accounts receivable	<b>10</b>	170 387	141 985	170 387	141 985
Amounts owing by fellow subsidiaries	<b>22</b>	1 229	1 921	1 229	1 921
Amounts owing by holding group	<b>22</b>	--	601	--	601
Current tax asset	<b>17</b>	29 314	2 771	29 314	2 771
Short-term portion of finance lease receivable	<b>31</b>	6 126	4 668	6 126	4 668
Cash and cash equivalents	<b>11</b>	49 822	212 893	49 768	212 839
		309 492	390 253	309 438	390 199
<b>Total Assets</b>		1 950 649	1 780 911	2 000 690	1 786 480
<b>EQUITY</b>					
<b>Capital and reserves attributable to the company's equity holders</b>					
Share capital	<b>12</b>	154 530	154 530	154 530	154 530
Retained earnings		797 112	825 746	856 524	831 315
<b>Total Equity</b>		951 642	980 276	1 011 054	985 845
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Retirement benefit obligations	<b>20</b>	49 575	46 123	49 575	46 123
Long term liabilities	<b>13</b>	57 322	119 764	47 951	119 764
Deferred tax	<b>15</b>	388 984	360 002	388 984	360 002
		495 881	525 889	486 510	525 889
<b>Current liabilities</b>					
Trade and other payables	<b>16</b>	182 406	208 914	182 406	208 914
Shortterm portion of longterm liabilities	<b>13</b>	282 534	64 569	282 534	64 569
Bank overdraft	<b>11</b>	19 900	--	19 900	--
Amount owing to fellow subsidiaries	<b>22</b>	14 092	1 263	14 092	1 263
Amount owing to holding company	<b>22</b>	4 194	--	4 194	--
		503 126	274 746	503 126	274 746
<b>Total liabilities</b>		999 007	800 635	989 636	800 635
<b>Total equity and liabilities</b>		1 950 649	1 780 911	2 000 690	1 786 480

## Income Statements

for the year ended 30 September 2007

	Notes	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
<b>Revenue</b>					
-revenue (goods)		54 877	53 424	54 877	53 424
-service revenue		1 005 810	1 004 648	1 005 810	1 004 648
Other operating income		3 154	2 084	3 154	2 084
Distribution costs		(285 932)	(283 526)	(285 932)	(283 526)
Administrative expenses		(555 022)	(466 205)	(554 926)	(466 202)
Other operating expenses		(152 695)	(134 931)	(152 695)	(134 931)
<b>Operating profit</b>	<b>3</b>	70 192	175 494	70 288	175 497
Financial income	<b>4</b>	20 490	28 598	18 271	28 598
Financial costs	<b>4</b>	(36 930)	(30 000)	(34 368)	(30 000)
<b>Profit before tax</b>		53 752	174 092	54 191	174 095
Taxation	<b>5</b>	(28 982)	(61 801)	(28 982)	(61 801)
Share of results of associate after tax	<b>26</b>	(53 404)	(5 566)	--	--
<b>Net (loss)/profit for the year</b>		(28 634)	106 725	25 209	112 294
<b>Attributable to equity holders of the company:</b>					
		(28 634)	106 725	25 209	112 294

## Statements of Changes in Equity

for the year ended 30 September 2007

	Notes	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
<b>Attributable to equity holders of the company:</b>					
<b>Share capital</b>					
Ordinary shares					
At beginning of year	12	154 530	154 530	154 530	154 530
<b>Retained earnings</b>					
Balance: beginning of year as restated		825 746	735 963	831 315	735 963
As previously stated		533 554	471 922	539 123	471 922
Prior year adjustment: Input VAT	30.1	(15 837)	(15 837)	(15 837)	(15 837)
Prior year adjustment: useful live	30.2	297 292	269 472	297 292	269 472
Prior year adjustment: derivative	30.3	17 291	18 637	17 291	18 637
Prior year adjustment: finance leases	30.4	(3 734)	(8 231)	(3 734)	(8 231)
Prior year adjustment: unearned revenue	30.5	(2 820)	–	(2 820)	–
Net profit for the year - restated		(28 634)	106 725	25 209	112 294
As previously stated		(28 634)	78 574	25 209	84 143
Prior year adjustment: useful live	30.2	–	27 820	–	27 820
Prior year adjustment: derivative	30.3	–	(1 346)	–	(1 346)
Prior year adjustment: finance leases	30.4	–	4 497	–	4 497
Prior year adjustment: unearned revenue	30.5	–	(2 820)	–	(2 820)
Dividends		–	(16 942)	–	(16 942)
Balance: end of year		797 112	825 746	856 524	831 315

Dividends of nil cents per share were paid during the year (2006 : 10,96 cents).

## Cash flow statements

for the year ended 30 September 2007

	Notes	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
<b>Cash flow from operating activities</b>					
Operating profit		70 192	175 494	70 288	175 497
Adjustment for:					
Increase in post-retirement benefit obligation		3 452	2 051	3 452	2 051
Movement on derivative financial instrument		6 043	2 070	6 043	2 070
Depreciation	7	134 532	119 662	134 532	119 662
Profit on disposal of plant and equipment		892	(607)	892	(607)
Working capital changes	21	(63 794)	60 581	(63 794)	69 876
Cash generated from operations		151 317	359 251	151 413	368 549
Investment income		20 490	28 598	18 271	28 598
Financial costs		(36 930)	(30 000)	(34 368)	(30 000)
Dividends		–	(16 942)	–	(16 942)
Tax paid	17	(26 543)	(63 386)	(26 543)	(63 386)
<b>Net cash flow from operating activities</b>		<b>(108 334)</b>	<b>277 521</b>	<b>108 773</b>	<b>286 819</b>
<b>Cash flow from investing activities</b>					
<i>Expenditure for expansion</i>					
Movement on finance lease receivable		(2 501)	(4 662)	(2 501)	(4 662)
Plant and equipment acquired	7	(346 143)	(159 983)	(346 143)	(159 983)
Decrease/(increase) in investment		11 470	(13 346)	4 473	(7 599)
Increase in loans advanced		(10 040)	–	–	–
Proceeds on disposals – Plant and equipment		235	751	235	751
Investment in subsidiary acquired		–	(8 946)	–	(9 000)
Investment in associated company acquired		(39 035)	(29 893)	–	(29 893)
Increase in loan to subsidiary company		–	–	(33 146)	(15 045)
Increase in loan to associate company		(60 814)	(4 433)	(60 814)	(4 433)
<b>Net cash flow used in investing activities</b>		<b>(446 828)</b>	<b>(220 512)</b>	<b>(437 896)</b>	<b>(229 864)</b>
<b>Cash flow from financing activities</b>					
Net long-term loans raised/(repaid)		155 523	(47 954)	146 152	(47 954)
<b>Net cash flow used in financing activities</b>		<b>155 523</b>	<b>(47 954)</b>	<b>146 152</b>	<b>(47 954)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(182 971)</b>	<b>9 055</b>	<b>(182 971)</b>	<b>9 001</b>
Cash and cash equivalents at beginning of year		212 893	203 838	212 839	203 838
<b>Cash and cash equivalents at end of year</b>	11	<b>29 922</b>	<b>212 893</b>	<b>29 868</b>	<b>212 839</b>

## Notes to the financial statements for the year ended 30 September 2007

### 1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of preparation

The consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and financial assets and liabilities held-for-trading. The principal accounting policies adopted in the preparation of these annual financial statements are set out below and are consistent with those of the previous year.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

#### Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of further events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year, are discussed below:

##### *a) Allowance for doubtful debts*

Each debtor is assessed to determine recoverability of debt. Provision is made for all those debtors where evidence indicates that recoverability is doubtful. Accounts are written off when they are delinquent.

##### *b) Fair value estimation*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

##### *c) Inventories*

Stock counts are performed annually, and thereafter management writes off or provides for any missing or damaged stock items.

##### *d) Discount rates*

Discount rates used to calculate discounted cash flows are based on prevailing market related interest rates.

##### *e) Asset lives and residual values*

Plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

## Notes to the financial statements for the year ended 30 September 2007

##### *f) Provision for post retirement medical aid benefits*

Post retirement medical aid benefit provision is based on actuarial valuation by independent actuaries. The discount rate used is based on the current long term bond yield, gross of tax. A valuation was done for the current year. All actuarial gains and losses are recognised in full.

##### *g) Estimated impairment of goodwill*

The group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### Plant and equipment

Plant and equipment are included at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. Capital work in progress and minor items of fixed assets are not depreciated. All other fixed assets, including capitalised leased assets, are depreciated at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives. Minor items of plant and equipment, individually costing less than N\$1 000 are expended in full in the year of acquisition.

Appropriate direct labour and development costs are capitalised to capital work in progress.

Depreciation is recorded by a charge to operating profit computed on a straight-line basis so as to write off the cost of the assets to their residual values over their expected useful lives.

Rates of depreciation currently applied are as follows:

- Motor vehicles	20%
- Furniture and fittings	10% - 33,3%
- Computer equipment	33,3%
- Telecommunications installations and equipment	2,22% - 20%

Repairs and maintenance are generally charged to expenses during the financial period in which they are incurred. However, major renovations are capitalized and included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the group. Major renovations are depreciated over the remaining useful life of the related asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes transport and handling costs. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs, but excludes borrowing costs. Net realizable value is estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Where necessary, provision is made for obsolete, slow moving and defective inventories.



## Notes to the financial statements for the year ended 30 September 2007

### Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on plant and equipment, provisions and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

### Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

#### (a) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. There were no such fair value assets held during the year.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable.

#### (c) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

## Notes to the financial statements for the year ended 30 September 2007

### Financial assets - continued

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

#### (d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Were the group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. During the period the group did not hold any investments in this category.

### Accounts receivable

Accounts receivable are carried at original invoiced amounts less provision made for impairment of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, discounted at the market rate of interest for similar borrowers.

### Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

### Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### Leases

#### (a) A group company is the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

#### b) A group company is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised when significant risks and rewards of ownership is transferred to the lessee.

## Notes to the financial statements for the year ended 30 September 2007

### Dividends

Dividends are recorded in the group's financial statements in the period in which they are declared by the board of directors.

### Pension fund arrangements

Current contributions to the pension fund operated for employees are charged against income as incurred. The fund is actuarially valued at intervals of three years and the cost of providing for any deficits is charged against income when determined. The cost of securing increased benefits is written off over the remaining period of services of employees or ten years, whichever is the shorter.

### Post-retirement obligations

The group provides post-retirement pension fund and medical aid benefits to their retirees (refer note 20). The entitlement of these benefits is based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment. Valuations of these obligations are carried out by an independent qualified actuary.

### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, and other sales taxes or duty. The group invoices independent service providers for the revenue billed by them on behalf of the group, when the deliverables are used.

The following specific recognition criteria must also be met before revenue is recognised:

#### *Post-paid products*

Post-paid products may include deliverables such as a SIM-card, a handset and a fixed period service and are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable based on the fair value of each deliverable on a standalone basis as a percentage of the aggregated fair value of the individual deliverables.

Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from connect packages, which includes activations, SIM-cards and phone, is recognised over the period of the contract.
- Revenue from SIM-cards, representing activation fees, is recognised upon activation of the SIM-card by the post-paid customer.
- Revenue from handsets is recognised when the product is delivered.
- Monthly service revenue received from the customer is recognised in the period in which the service is rendered.
- Airtime revenue is recognised on the usage basis.

## Notes to the financial statements for the year ended 30 September 2007

### Revenue - continued

#### *Pre-paid products*

Pre-paid products may include deliverables such as a SIM-card, a handset and airtime and are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable based on the fair value of each deliverable on a standalone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from SIM-cards, representing activation fees, is recognised upon activation of the SIM-card by the pre-paid customer.
- Airtime revenue is recognised on the usage basis. The unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer.

Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in revenue.

Deferred revenue and costs related to unactivated starter packs, which do not contain any expiry date, is recognised in the period when the probability of these starter packs being activated becomes remote.

#### *Data service revenue*

Revenue net of discounts, from data services is recognised when the group has performed the related service and depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the group as commission for facilitating the service.

#### *Sale of equipment*

Revenue from equipment sales are recognised when the product is delivered and acceptance has taken place. Revenue from equipment sales to third party service providers is recognised when delivery is accepted. No rights of return exist on sale to third party service providers.

#### *Other revenue and income:*

##### *Interconnect and international revenue*

Interconnect and international revenue is recognised on the usage basis.

##### *Interest*

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

##### *Rental income*

Rental income arising from operating leases of the base stations and other equipment are recognised on a straight line basis over the lease terms.

## Financial instruments

### (i) Financial risk factors

In the normal course of its operations, the group is exposed to interest rate, liquidity, exchange rate and credit risk. The group manages the risk as follows:

#### Interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates. As part of managing interest rate exposure, interest rate characteristics of new borrowings will be positioned according to expected movements in interest rates.

On a long-term basis, the group borrows from financial institutions at interest rates varying between 10,96% and 19% (2006 : 10,96% and 19%).

#### Credit risk

The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The group has policies that limit the amount of credit risk exposure to any one financial institution, and cash transactions are limited to high credit quality financial institutions.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The group aims at maintaining flexibility in funding by keeping committed credit lines available.

#### Exchange credit risk

The local currency amounts to be paid and contractual exchange rates of the group's outstanding contracts were:  
EUR 420 028                      N\$9,74 = EUR 1

### (ii) Fair value estimation

In assessing the fair value of financial instruments, the group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt.

The face value, less any estimated credit adjustment for financial assets and liabilities with a maturity of less than one year, are assumed to approximate fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates available to the group for similar financial instruments.

#### Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

## Consolidation

### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### (b) Transactions and minority interest

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interest result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### (c) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.



## Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Namibian Dollar (N\$) which is the company's functional and presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary

## Foreign currency translation - continued

economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Trade payables

Trade payables are carried at the fair value of the consideration to be paid in future for goods or services that have been received or supplied and invoiced or formally agreed with the supplier.

## Derivative financial instruments

Derivatives are carried at their fair value upon initial recognition. The fair value are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available the fair value must be calculated using standard financial valuation models. For recording changes in the fair values, recognition in either the income statement or directly in equity, a determination is made whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If no hedge accounting is employed, the changes in the fair values of the derivatives must always be recognised in profit or loss.

## New accounting standards and IFRIC interpretations

- (a) *Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 October 2006.*

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)

IAS 19 (Amendment) Employee Benefits (effective from 1 January 2006)

IAS 21 (Amendment) Net Investment in a Foreign Operation (effective from 1 January 2006)

IAS 39 and IFRS 4 (Amendment) Financial Guarantee Contracts (effective from 1 January 2006)

IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)

## New accounting standards and IFRIC interpretations - continued

IAS 39 (Amendment) The Fair Value Option (effective from 1 January 2006)

IFRIC Interpretation 4 Determining whether an Arrangement Contains a Lease (effective from 1 January 2006)

IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)

IFRIC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste electrical and Electronic Equipment (effective from 1 January 2006)

IFRIC Interpretation 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics (effective from 1 March 2006)

IFRIC Interpretation 8 Scope of IFRS 2 (effective from 1 May 2006)

IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006)

AC 503 Accounting for Black Economic Empowerment ("BEE") transactions (effective from 1 May 2006)

(b) *Interpretations and amendments issued but not effective for your September 2007 year-end and have not been early adopted by the group.*

IFRS 7 Financial Instruments: Disclosures, and a complementary Amendment to IAS 1 (AC 101), Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)

IFRS 8 Operating Segments (effective from 1 January 2009)

IFRIC Interpretation 10 Interim financial reporting and impairment (effective from 1 November 2007)

IFRIC Interpretation 11 IFRS 2 Group and Treasury share transaction (effective from 1 March 2007)

IFRIC 12 Service Concession Arrangements (effective from 1 January 2008)

IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

IFRIC 13 Customer Loyalty Programs (effective from 1 July 2008)

IAS 23 Borrowing costs (effective from 1 January 2009)

## 2. Transition to IFRS

### 1.1 Basis of transition to IFRS

#### 2.1.1 Application of IFRS 1

The Group's financial statements for the year ended 30 September 2007 will be the first annual financial statements that comply with IFRS. These financial statements have been prepared as described in Note 1. The Group has applied IFRS 1 in preparing these consolidated financial statements.

## 2. Transition to IFRS - continued

The group's transition date is 1 October 2005. The Group prepared its opening IFRS balance sheet at that date.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of IFRS.

### 2.1.2 Exemptions from full retrospective application – elected by the group

The group has elected not to apply the following optional exemptions from full retrospective application.

#### (a) Business combinations exemption

The group has not applied the business combinations exemption in IFRS 1. No business combination occurred prior to the 1 October 2005 transition date.

#### (b) Fair value as deemed cost exemption

A first time adopter may elect to measure certain items of plant and equipment at fair value as at transition date. The group did not make use of this exemption.

#### (c) Employee benefits

A first time adopter may elect to recognise all cumulative actuarial gains and losses as at transition date. The group did not have accumulative actuarial gains and losses; this exemption is not applicable.

#### (d) Cumulative translation differences exemption

A first time adopter may elect to set the previously accumulated cumulative translation differences to zero at transition date. The Group did not have cumulative translation differences; this exemption is not applicable.

#### (e) Compound financial instruments exemption

The Group has not issued any compound instruments; this exemption is not applicable.

#### (f) Assets and liabilities of subsidiaries, associates and joint ventures exemption

This exemption is not applicable, as the use of the exemption is made at the level of the subsidiary, associate or joint venture that adopts IFRS later than its parent company.

#### (g) Designation of previously recognised financial assets and financial liabilities exemption

The group has not applied this exemption in IFRS 1.

#### (h) Share-based payment transaction exemption

This exemption is not applicable. The group has not made any share-based payments.

#### (i) Insurance contracts exemption

## Notes to the financial statements for the year ended 30 September 2007

### 2. Transition to IFRS - continued

(j) *Decommissioning liabilities included in the cost of plant and equipment exemption*

The Group does not have decommissioning liabilities; this exemption is not applicable.

(k) *Fair value measurement of financial assets or liabilities at initial recognition*

The Group has not applied the exemption offered by the revision of IAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market. This exemption is therefore not applicable.

(l) *Exemption from restatement of comparatives for IAS 32, IAS 38 and IFRS 4*

The group has not applied this exemption in IFRS 1.

(m) *Exemption from the requirements to present comparative information for IFRS 6*

This exemption is not applicable to the Group.

(n) *Exemption from the requirements to provide comparative disclosures for IFRS 7*

This exemption is not applicable to the Group.

#### 2.1.3. Exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from retrospective application.

(a) *Derecognition of financial assets and liabilities exception*

Financial assets and liabilities derecognised before 1 October 2005 have not been re-stated in terms of IFRS. Management did not choose to apply the IAS 39 derecognition criteria to a date earlier than 1 October 2006.

(b) *Hedge accounting exception*

Management has claimed hedge accounting from 1 October 2006 only if the hedge relationship meets all the hedge accounting criteria under IAS 39. No formal hedge documentation was put in place in the past and therefore hedge accounting has not been applied.

(c) *Estimates exception*

Estimates under IFRS at 1 October 2005 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

(d) *Assets held for sale and discontinued operations exception*

Management applies IFRS 5 prospectively from 1 October 2006. The Group did not have any assets that met the held-for-sale criteria during the period presented. No adjustment was required.

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 3. Expenses by Nature

The following items have been charged/(credited) in arriving at operating profit:

Auditors' remuneration				
Audit fees - current year	1 262	478	1 262	478
Other services – current year	292	285	256	285
Penalties and interest	25 168	–	25 168	–
Depreciation	134 532	119 662	134 532	119 662
Loss/ (Profit) on disposal of plant and equipment	892	(607)	892	(607)
Operating lease rentals	49 960	46 216	49 960	46 216
Cost of sales	27 385	6 533	27 385	6 533
Staff costs (refer to note 6)	314 609	274 177	314 609	274 177
Directors' emoluments	1 834	1 462	1 834	1 462
Advertising and Promotions	13 429	13 008	13 429	13 008
International settlements	216 118	223 078	216 118	223 078
Repairs and maintenance	53 440	53 070	53 440	53 070
Actuarial (gain)/loss on post retirement benefits	(2 214)	(1 308)	(2 214)	(1 308)
Other expenses	150 899	146 538	150 839	146 535
Fair value adjustment on derivative	6 043	2 070	6 043	2 070
	<u>993 649</u>	<u>884 662</u>	<u>993 553</u>	<u>884 659</u>



## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 4. Financial Items

Interest received	20 490	28 598	18 271	28 598
Less: Interest paid	(36 930)	(30 000)	(34 368)	(30 000)

Long-term loans and promissory notes	(32 238)	(26 800)	(29 676)	(26 800)
Other interest	(4 692)	(3 200)	(4 692)	(3 200)

	(16 440)	(1 402)	(16 097)	(1 402)
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### 5. Taxation

Namibian normal income tax	--	(55 698)	--	(55 698)
Deferred tax				
Current year timing differences	(28 982)	(6 103)	(28 982)	(6 103)
Tax charge for the year	(28 982)	(61 801)	(28 982)	(61 801)

The tax on the group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	53 752	174 092	54 191	174 095
Tax calculated at a tax rate of 35% (2006 : 35%)	(18 813)	(60 932)	(18 967)	(60 933)
- Income not subject to tax	--	316	--	316
-Expenses not deductible for tax purposes	(10 169)	(1 185)	(10 015)	(1 184)
Tax charge	(28 982)	(61 801)	(28 982)	(61 801)

### 5. Staff Costs

Salaries and other related costs	273 809	273 809	235 193	235 193
Social Security	404	404	411	411
Medical Aid	15 458	15 458	14 860	14 860
Pension Fund	24 938	24 938	23 713	23 713
	314 609	314 609	274 177	274 177

## Notes to the financial statements

for the year ended 30 September 2007

	Telecommunication installations and equipment N\$'000	Furniture and fittings N\$'000	Capital work in progress N\$'000	Motor vehicles N\$'000	Total N\$'000
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### 7. Plant and equipment - Company

#### Year ended 30 September 2007

#### Cost

Beginning of year - restated	1 717 271	303 250	157 488	2 012	2 180 021
Beginning of year - as previously stated	1 756 468	303 250	157 488	2 012	2 219 218
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.4	(55 034)	--	--	--	(55 034)
Additions	--	7 514	338 629	--	346 143
Disposals	(15 699)	(93 055)	--	(384)	(109 138)
Transfers	269 773	(4 044)	(265 729)	--	--
Closing Balance	1 971 345	213 665	230 388	1 628	2 417 026

#### Accumulated depreciation

Beginning of year - restated	697 883	252 705	--	1 985	952 573
Beginning of year - as previously stated	1 172 125	252 705	--	1 985	1 426 815
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.2	(457 371)	--	--	--	(457 371)
Prior year adjustment - note 30.4	(32 708)	--	--	--	(32 708)
Depreciation charge	105 320	29 201	--	11	134 532
Depreciation on disposals	(14 653)	(92 974)	--	(384)	(108 011)

#### Closing balance

Bookvalue at 30 September 2007	1 182 795	24 733	230 388	16	1 437 932
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## Notes to the financial statements

for the year ended 30 September 2007

	Telecommunication installations and equipment N\$'000	Furniture and fittings N\$'000	Capital work in progress N\$'000	Motor vehicles N\$'000	Total N\$'000
--	--	---	---	------------------------------	------------------

### 7. Plant and equipment (continued) - Company

Year ended 30 September 2006

Cost

Beginning of year - restated	1 657 490	295 311	70 457	2 441	2 025 699
Beginning of year - as previously stated	1 686 661	295 311	70 457	2 441	2 054 870
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.4	(45 008)	--	--	--	(45 008)
Additions	--	11 499	158 510	--	17 0 009
Disposals	(1 672)	(3 560)	--	(429)	(5 661)
Transfers - restated	61 453	--	(71 479)	--	(10 026)
Transfers - as previously stated	71 479	--	(71 479)	--	--
Prior year adjustment - note 30.4	(10 026)	--	--	--	(10 026)
Closing Balance	1 717 271	303 250	157 488	2 012	2 180 021

#### Accumulated depreciation

Beginning of year - restated	609 449	226 576	--	2 403	838 428
Beginning of year - as previously stated	1 028 610	226 576	--	2 403	1 257 589
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.2	(414 573)	--	--	--	(414 573)
Prior year adjustment - note 30.4	(20 425)	--	--	--	(20 425)
Depreciation charge - restated	90 076	29 575	--	11	119 662
Depreciation charge - as previously stated	145 157	29 575	--	11	174 743
Prior year adjustment - note 30.2	(42 798)	--	--	--	(42 798)
Prior year adjustment - note 30.4	(12 283)	--	--	--	(12 283)
Depreciation on disposals	(1 642)	(3 446)	--	(429)	(5 517)

Closing balance

Bookvalue at

30 September 2006

697 883	252 705	--	1 985	952 573
1 019 388	50 545	157 488	27	1 227 448

Certain of the fixed assets have been encumbered as stated in note 13.

## Notes to the financial statements

for the year ended 30 September 2007

	Telecommunication installations and equipment N\$'000	Furniture and fittings N\$'000	Capital work in progress N\$'000	Motor vehicles N\$'000	Total N\$'000
--	--	---	---	------------------------------	------------------

### 7. Plant and equipment (continued) - Group

Year ended 30 September 2007

Cost

Beginning of year - restated	1 717 271	303 250	157 488	2 012	2 180 021
Beginning of year - as previously stated	1 756 468	303 250	157 488	2 012	2 219 218
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.4	(55 034)	--	--	--	(55 034)
Additions	--	7 514	338 629	--	346 143
Disposals	(15 699)	(93 055)	--	(384)	(109 138)
Transfers	269 773	(4 044)	(265 729)	--	--
Closing Balance	1 971 345	213 665	230 388	1 628	2 417 026

#### Accumulated depreciation

Beginning of year - restated	697 883	252 705	--	1 985	952 573
Beginning of year - as previously stated	1 172 125	252 705	--	1 985	1 426 815
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.2	(457 371)	--	--	--	(457 371)
Prior year adjustment - note 30.4	(32 708)	--	--	--	(32 708)
Depreciation charge	105 320	29 201	--	11	134 532
Depreciation on disposals	(14 653)	(92 974)	--	(384)	(108 011)

Closing balance

Bookvalue at

30 September 2007

788 550	188 932	--	1 612	979 094
1 182 795	24 733	230 388	16	1 437 932

## Notes to the financial statements

for the year ended 30 September 2007

	Telecommunication installations and equipment N\$'000	Furniture and fittings N\$'000	Capital work in progress N\$'000	Motor vehicles N\$'000	Total N\$'000
--	--	---	---	------------------------------	------------------

### 7. Plant and equipment (continued) - Group

#### Year ended 30 September 2006 Cost

Beginning of year - restated	1 657 490	295 311	70 457	2 441	2 025 699
Beginning of year - as previously stated	1 686 661	295 311	70 457	2 441	2 054 870
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.4	(45 008)	--	--	--	(45 008)
Additions	--	11 499	158 510	--	17 0 009
Disposals	(1 672)	(3 560)	--	(429)	(5 661)
Transfers - restated	61 453	--	(71 479)	--	(10 026)
Transfers - as previously stated	71 479	--	(71 479)	--	--
Prior year adjustment - note 30.4	(10 026)	--	--	--	(10 026)
Closing Balance	1 717 271	303 250	157 488	2 012	2 180 021

#### Accumulated depreciation

Beginning of year - restated	609 449	226 576	--	2 403	838 428
Beginning of year - as previously stated	1 028 610	226 576	--	2 403	1 257 589
Prior year adjustment - note 30.1	15 837	--	--	--	15 837
Prior year adjustment - note 30.2	(414 573)	--	--	--	(414 573)
Prior year adjustment - note 30.4	(20 425)	--	--	--	(20 425)
Depreciation charge - restated	90 076	29 575	--	11	119 662
Depreciation charge - as previously stated	145 157	29 575	--	11	174 743
Prior year adjustment - note 30.2	(42 798)	--	--	--	(42 798)
Prior year adjustment - note 30.4	(12 283)	--	--	--	(12 283)
Depreciation on disposals	(1 642)	(3 446)	--	(429)	(5 517)

Closing balance	697 883	252 705	--	1 985	952 573
Bookvalue at 30 September 2006	1 019 388	50 545	157 488	27	1 227 448

Certain of the fixed assets have been encumbered as stated in note 13.

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 8. Investments

#### Loans originated

Bank Windhoek : Ceded deposit	67 470	71 943	67 470	71 943
The deposit earns interest at 18.7% (2006:18.7%)p.a.				
The deposit was ceded as security for a Bank Windhoek loan account (refer note 13).				

#### Available-for-sale

Sepco Communications (Pty) Ltd				
- preference shares	--	1 749	--	--
- loan advanced	--	5 248	--	--
	67 470	78 940	67 470	71 943

At the beginning of year	78 940	64 344	71 943	64 344
Investment transferred to investment in associate	(6 997)	--	--	--
Acquisition of subsidiary	--	1 250	--	--
Additions	3 141	13 346	3 141	7 599
Repayments made	(20 000)	--	(20 000)	--
Interest received	12 386	--	12 386	--
At end of year	67 470	78 940	67 470	71 943

### 9. Inventories

Materials for installations	35 947	22 418	35 947	22 418
Workshop and consumable stores	463	810	463	810
Goods for resale	16 204	2 186	16 204	2 186
	52 614	25 414	52 614	25 414

The value of inventory shown at net realisable value = N\$2 329 505.

### 10. Accounts receivable

Trade receivables				
Total trade receivables	132 141	145 372	132 141	145 372
Less: Provision for impairment	(8 673)	(11 627)	(8 673)	(11 627)
Forward Exchange contract	2 063	--	2 063	--
Receiver of Revenue - VAT	12 931	--	12 931	--
Outstanding deposits	511	--	511	--
Other debtors	31 414	8 240	31 414	8 240
	170 387	141 985	170 387	141 985



## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
--	--------------------------	--------------------------	----------------------------	----------------------------

### 11. Cash and cash equivalents

Bank balances	46 706	202 594	46 652	202 540
Cash on hand	3 116	10 299	3 116	10 299
	<u>49 822</u>	<u>212 893</u>	<u>49 768</u>	<u>212 839</u>

For the purpose of the cash flow statement the year-end cash and cash equivalents comprise the following:

Bank balances	46 706	202 594	46 652	202 540
Cash on hand	3 116	10 299	3 116	10 299
Bank overdraft	(19 900)	--	(19 900)	--
	<u>29 922</u>	<u>212 893</u>	<u>29 868</u>	<u>212 839</u>

The bank overdraft is secured by cession of fixed deposits dated 20 April 2006.

### 12. Share capital

#### Authorised

200 000 000 (2006: 200 000 000) ordinary shares of N\$1 (2006: N\$1) each	<u>200 000</u>	<u>200 000</u>	<u>200 000</u>	<u>200 000</u>
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#### Issued

154 529 936 (2006: 154 529 936) ordinary shares of N\$1 (2006: N\$1) each	<u>154 530</u>	<u>154 530</u>	<u>154 530</u>	<u>154 530</u>
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## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 13. Long Term Liabilities

#### Secured

Loan from European Investment Bank.

The group has entered into currency swap agreements that entitle it to pay interest at rates varying between 10,96% and 12,25% p.a. (2006: 10,96% and 12,25% p.a.) The capital amount is repayable in 13 (2006 : 15) semi-annual instalments with the final instalment due in 2013. Interest is paid semi annually on the outstanding capital amount. A letter of guarantee covering the principal debt and interest has been issued by the Government of Namibia.

58 654	71 575	58 654	71 575
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The following foreign amounts were outstanding at year-end in respect of this loan and the following exchange rates were used:

EUR 5 621 314	N\$ 9,74	=	EUR 1
GBP 1 892 356	N\$ 14,26	=	GBP 1
US\$ 589 838	N\$ 6,86	=	USD 1

Loan from Bank Windhoek Limited

The Bank Windhoek loan account is currently bearing interest at a fixed rate of 19% (2006 : 19%). The capital amount is repayable in 1 (2006: 3) semi-annual instalments, with the first payment due in April 2006 and the final instalment payable in October 2007. The Bank Windhoek deposit was ceded as security for this loan. The deposit earns interest at 18,7% (2006 : 18,7%) p.a.

67 740	75 053	67 740	75 053
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MKhonto we Sizwe Military Veterans Association

The loan is unsecured, interest-free and is not subject to any fixed terms of repayment. These arrangements are reviewed from time to time.

9 371	--	--	--
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Balance carried forward	<u>135 765</u>	<u>146 628</u>	<u>126 394</u>	<u>146 628</u>
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## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
<b>13. Long Term Liabilities (continued)</b>				
Balance brought forward	135 765	146 628	126 394	146 628
First National Bank of Namibia	--	10 213	--	10 213
This loan was fully repaid in the year.				
Telecom Namibia registered loan stock bearing interest at 16% (2006:16%)p.a., paid bi-annually in arrears. The capital amount was repaid in 2007.	--	20 535	--	20 535
Loan from Kreditanstalt für Wiederaufbau (KfW) channelled through the Government of the Republic of Namibia bearing interest at 2% (2006:2%)p.a. The loan is repayable in 3(2006:5) semi-annual instalments. The loan of Euro 420 028 (2006: Euro 709 760) has been stated at spot rate of N\$9,74 (2006: N\$9.98). Also refer note 16.	4 091	6 957	4 091	6 957
Short-term bonds	200 000	--	200 000	--
The bond bears interest at 10,85% p.a., with a maturity date of 31/01/2008. The capital amount are repayable in 2008.	339 856	184 333	330 485	184 333
Less: Short-term portion transferred to current liabilities	(282 534)	(64 569)	(282 534)	(64 569)
	57 322	119 764	47 951	119 764
Maturity of non-current borrowings (excluding finance lease liabilities):				
Not later than 1 year	282 534	64 569	282 534	64 569
Later than 1 year and not later than 5 years	57 322	119 764	47 951	119 764
	339 856	184 333	330 485	184 333

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
<b>14. Total interest bearing borrowings</b>				
- Long-term loans	57 322	119 764	47 951	119 764
- Short-term loans	282 534	64 569	282 534	64 569
- Bank overdrafts	19 900	--	19 900	--
	359 756	184 333	350 385	184 333
<b>15. Deferred tax</b>				
Deferred income taxes are calculated on all temporary differences under the comprehensive method using a principal tax rate of 35% (2006 : 35%).				
The movement on the deferred income account is as follows:				
At beginning of year - restated	360 002	353 899	360 002	353 899
As previously stated	194 137	203 192	194 137	203 192
Prior Year Adjustments	165 865	150 707	165 865	150 707
Movements during year attributable to:				
Timing differences	28 982	6 103	28 982	6 103
At end of year	388 984	360 002	388 984	360 002
Deferred tax liabilities may be analysed as follows:				
Tax losses	(3 494)	--	(3 494)	--
Capital allowances	425 692	390 869	425 692	390 869
Provisions	(23 098)	(21 858)	(23 098)	(21 858)
Advanced income	(10 116)	(9 009)	(10 116)	(9 009)
	388 984	360 002	388 984	360 002
<b>16. Trade and other payables</b>				
Unpresented cheques	35 076	24 056	35 076	24 056
Trade payables	90 114	126 322	90 114	126 322
Foreign exchange contracts (refer note 13)	1 347	1 666	1 347	1 666
Accruals	55 869	38 479	55 869	38 479
Receiver of Revenue - VAT	--	18 391	--	18 391
	182 406	208 914	182 406	208 914

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 17. Current tax asset

Balance at beginning of year	(2 771)	4 917	(2 771)	4 917
Charge to income statement	192 701	46 643	192 701	46 643
Deferred tax adjustment	(192 701)	9 055	(192 701)	9 055
Balance at end of year	29 314	2 771	29 314	2 771
Payments made	26 543	63 386	26 543	63 386

### 18. Capital expenditure approved

Commitments in respect of contracts placed	74 768	44 894	74 768	44 894
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It is intended to finance capital expenditure from existing borrowing facilities and from working capital generated within the group.

### 19. Pension Fund

At the financial year-end, all the permanent employees of the group were members of the Napotel Pension Fund, a defined contribution fund, governed by the Pension Funds Act. Employees' contributions amount to 7% of basic salary and the group's contribution amounts to 16% of basic salary.

An actuarial valuation was carried out for the year ended 30 September 2006, which indicated that the fund was in a sound financial position.

### 20. Post retirement benefits

The group provides post employment benefits by way of a medical aid scheme.

#### Medical scheme:

The group continues to pay two thirds of total contributions towards the medical scheme when an employee becomes redundant, disabled or when an employee retires.

The liability created in terms of IAS 19 amounts to N\$ 49,575 million (2006: N\$46,123 million).

The principal actuarial assumptions used for accounting purposes were:

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 20. Post retirement benefits (continued)

- Real rate of return	2%	2%	2%	2%
- Discount rate	9%	9%	9%	9%
- Medical inflation rate	7%	7.75%	7%	7.75%
Balance at beginning of year	46 123	44 072	46 123	44 072
Current service cost	2 177	1 887	2 177	1 887
Interest cost	4 428	3 608	4 428	3 608
Miscellaneous item	(939)	(2 136)	(939)	(2 136)
Actuarial profit	(2 214)	(1 308)	(2 214)	(1 308)
Balance at end of year	49 575	46 123	49 575	46 123

Particulars in respect of the current employee members belong to the medical aid for which the group has a post-retirement medical aid liability as the investigation date are as follows:

Number of employees	1 069	1 177	1 069	1 177
Average age (years)	40,7	39,7	40,7	39,7
Details of the current pensioner members belonging to the medical aid are as follows:				
Number of employees	190	172	190	172
Average age (years)	58,6	58,7	58,6	58,7

### 21. Working capital changes

Decrease in working capital during the year				
Increase in inventories	(27 200)	(320)	(27 200)	(320)
(Increase)/Decrease in accounts receivable	(28 402)	1 246	(28 402)	10 541
(Decrease)/Increase in accounts payable	(26 508)	56 772	(26 508)	56 772
Increase in indebtedness by fellow subsidiaries	12 829	916	12 829	916
Decrease in indebtedness to fellow subsidiaries	692	2 321	692	2 321
Decrease in amount owing to holding group	4 194	--	4 194	--
Increase/(Decrease) in amount owing by holding group	601	(354)	601	(354)
	(63 794)	60 581	(63 794)	69 876



## Notes to the financial statements

for the year ended 30 September 2007

### 22. Related party transactions: Company

The group is controlled by Namibia Post and Telecom Holdings Limited (incorporated in Namibia) which owns 100% of the group's shares. Namibia Post and Telecom Holdings Limited is the group's holding company whilst Namibia Post Limited and Mobile Telecommunications Limited are fellow subsidiaries.

The following transactions were carried out with related parties:

#### i) Sales of services

Namibia Post Limited : N\$19 729 500 (2006 : N\$26 084 500)

Mobile Telecommunications Limited : N\$123 706 724 (2006 : N\$100 472 363)

#### ii) Purchases of services

Namibia Post and Telecom Holdings Limited : N\$49 419 648 (2006 : N\$44 110 021)

Namibia Post Limited : N\$ 2 238 162 (2006 : N\$2 390 334)

Mobile Telecommunications Limited: N\$134 500 193 (2006: N\$140 355 000)

The above transactions were carried out on commercial terms and conditions.

#### iii) Outstanding balances arising from sale/purchases of goods/services

Receivables from related parties:

Namibia Post Limited : N\$ 1 229 071 (2006 : N\$1 921 218)

Namibia Post & Telecom Holdings Limited: N\$ nil (2006: N\$601 371)

Payables to related parties:

Namibia Post Limited : N\$ nil (2006 : N\$580 838)

Mobile Telecommunications Limited : N\$14 092 128 (2006 : N\$: 682 314)

Namibia Post & Telecom Holdings Limited: N\$4 193 748 (2006: N\$ nil)

#### iv) Suretyships

The following suretyships were given by the holding group, Namibia Post and Telecom Holdings Limited:

- Suretyship for N\$ 30 000 000 (2006 : N\$ 30 000 000) has been provided to Standard Bank Namibia in respect of general short-term banking facilities.
- Suretyship for N\$ 50 000 000 (2006 : N\$ 50 000 000) has been provided to First National Bank of Namibia Limited in respect of a funding facility provided.
- Cession of fixed deposits dd 20/04/2006 to First National Bank of Namibia Limited.
- Guarantee to Bank of Namibia Limited.

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
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### 22. Related party transactions: Company (continued)

#### v) Key management compensation

Salaries and other short-term employee benefits	30 375	26 286	30 375	26 286
Other long-term benefits	4 494	4 264	4 494	4 264
	<u>34 869</u>	<u>30 550</u>	<u>34 869</u>	<u>30 550</u>

### 23. Operating lease commitments

The future minimum lease payments under operating lease contracts are as follows:

- Not later than one year	5 173	33 274	5 173	33 274
- Later than one year, but not later than five years	<u>49 610</u>	<u>38 089</u>	<u>49 610</u>	<u>38 089</u>

### 24. Guarantees

The group has a contingent liability in favour of Standard Bank Namibia in respect of guarantees supplied by the bank on behalf of the group:

The guarantees are:

China Jiangsu International	144	139	144	139
Stocks & Stocks Namibia (Pty) Ltd	25	25	25	25
The Deputy Sheriff for Windhoek	107	107	107	107
Home Heart CC	2	--	2	--
	<u>278</u>	<u>271</u>	<u>278</u>	<u>271</u>

### 25. Investment in subsidiary

Beginning of the year	--	--	9000	--
Acquisition of subsidiary - shares	--	--	--	9000
	<u>--</u>	<u>--</u>	<u>9 000</u>	<u>9000</u>

#### Loans

Loan advanced	--	--	48 191	15 045
	<u>--</u>	<u>--</u>	<u>48 191</u>	<u>15 045</u>
Balance at end of the year	<u>--</u>	<u>--</u>	<u>57 191</u>	<u>24 045</u>

The company holds a 75% interest in a subsidiary, Communitel Telecommunications (Pty) Ltd. The company is registered in the Republic of South Africa.

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
--	--------------------------	--------------------------	----------------------------	----------------------------

### 26. Investment in associated company

Investment in Mundu Startel SARL:

Shares at cost	29 893	29 893	29 893	29 893
Share of results	(19 935)	(5 566)	--	--
Loans advanced	65 247	4 433	65 247	4 433
	<u>75 205</u>	<u>28 760</u>	<u>95 140</u>	<u>34 326</u>

Set out below is the summarised financial information of associate :

Assets	128 007	130 169	--	--
Liabilities	119 213	93 448	--	--
Revenues	790	316	--	--
Loss after tax	(15 203)	(12 651)	--	--

The company holds a 44% interest in an associate, Mundu Startel SARL. The company is registered in the Republic of Angola.

Investment in Sepco Communications (Pty) Ltd:

Ordinary shares at cost	--	--	--	--
Preference shares at cost	9 371	--	--	--
Share of results	(39 035)	--	--	--
Loans advanced	29 664	--	--	--
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>

Set out below is the summarised financial information of associate :

Assets	1 048 949	--	--	--
Liabilities	1 179 874	--	--	--
Revenues	40 824	--	--	--
Loss after tax	(134 082)	--	--	--

The subsidiary, Communitel Telecommunications (Pty) Ltd holds a 24,5% interest in an associate, Sepco Communications (Pty) Ltd. The company is registered in the Republic of South Africa.

Total	<u>75 205</u>	<u>28 760</u>	<u>95 140</u>	<u>34 326</u>
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## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
--	--------------------------	--------------------------	----------------------------	----------------------------

### 27. Loans advanced

Mkhonto We Sizewe Military Veterans Association	<u>13 785</u>	<u>3 745</u>	<u>--</u>	<u>--</u>
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This bears interest at prime plus 2%, unsecured and not subject to any fixed terms of repayment. These arrangements are reviewed from time to time.

### 28. Intangible asset

#### Goodwill

Balance at beginning of year	13 246	--	--	--
Subsidiary acquired	--	13 246	--	--
Balance at end of year	<u>13 246</u>	<u>13 246</u>	<u>--</u>	<u>--</u>

Goodwill arised on the acquisition of 75% of the shares in Communitel Telecommunications (Pty) Ltd.

### 29. Derivative financial instruments

#### Interest rate swaps

Opening balance	26 602	28 672	26 602	28 672
Recognised in income statement	(6 043)	(2 070)	(6 043)	(2 070)
Closing balance	<u>20 559</u>	<u>26 602</u>	<u>20 559</u>	<u>26 602</u>

At 30 September 2007, the fixed interest rates vary from 10.96% to 12,25% (2006 : 10,96% to 12,25%), and the main floating rates are LIBOR. Gains and losses recognised on interest rate swap contracts as of 30 September 2007 will be continuously recognised in the income statement until the repayment of the bank borrowings.

### 30. Prior year adjustments

#### 30.1 Input VAT not claimable

During October 2006, Telecom Namibia Limited paid N\$27 626 573 in respect of underpaid import VAT for the period November 2000 to September 2004. In terms of the 2007 VAT amendment Act, the tax payer is entitled to claim import VAT paid within a period of 3 years as input VAT, provided the tax payer is in possession of the required import documentation. Included in the payment of N\$27 626 573 is import VAT of N\$15 836 939 for the period November 2000 till September 2003 which is not claimable as input VAT as it falls outside the allowed 3 year claimable period. This resulted in the N\$15 836 939 being accounted for as fixed assets and depreciated over their useful lives. The result was a decrease in opening retained earnings 1 October 2005 of N\$15 836 939.

## Notes to the financial statements

for the year ended 30 September 2007

### 30.2 Change in useful lives

The estimated useful lives for telecommunication installations and equipment were never assessed from inception to determine if the correct rates were used. During the 2007 year the company then for the first time assessed the useful lives. The company determined that the equipment are used for between 5 and 45 years.

The correction of the error resulted in the following:

An increase in opening retained earnings of N\$457 370 831 (2006 : N\$414 572 944) and net profit before tax of N\$40 254 157 (2006 : N\$42 797 887) and an increase in the deferred tax liability for the year of N\$14 088 955 (2006 : N\$14 979 260).

### 30.3 Derivative financial instruments

Included in long-term borrowings are currency swap agreements entered into with European Investment Bank. Terms and conditions were embedded within the host contract that behaves like a free standing derivative. These embedded derivatives should have been recognised at their fair value, separately from the non-derivative host contract. The embedded derivatives were not previously recognised. The derivative was recognised in 2007, which resulted in the following:

An increase in opening retained earnings of N\$26 602 382 (2006 : N\$28 671 698). A decrease in net profit before tax of N\$6 043 120 (2006 : N\$2 069 315) and a decrease in the deferred tax liability of N\$2 115 092 (2006 : N\$724 260).

### 30.4 Finance lease receivable

In prior years the PABX finance leases were incorrectly treated as operating leases. This was corrected in the current year.

The correction of the error resulted in the following:

A decrease in opening retained earnings of N\$5 741 657 (2006 : N\$12 660 962) and an increase in net profit before tax of N\$2 543 809 (2006 : N\$6 919 305) and an increase in the deferred tax liability of N\$890 333 (2006 : N\$2 421 757).

### 30.5 Unearned revenue

No unearned revenue were recognised in prior years in respect of prepaid tele-cards. This was done for the first time in 2007. The adjustment was only made in 2007 and 2006, as it is impractical to determine the effects on the opening balance sheet of 1 October 2005.

The effects of the adjustments were as follows:

A decrease in the net profit for the year of N\$5 011 247 (2006 : N\$4 337 755) and a decrease in the deferred tax liability of N\$1 753 936 (2006 : N\$1 518 214).

## Notes to the financial statements

for the year ended 30 September 2007

	Group 2007 N\$'000	Group 2006 N\$'000	Company 2007 N\$'000	Company 2006 N\$'000
--	--------------------------	--------------------------	----------------------------	----------------------------

### 31. Finance lease receivable

Gross receivables from finance leases:

Not later than 1 year	6 249	4 761	6 249	4 761
Later than 1 year and not later than 5 years	13 219	12 156	13 219	12 156
	19 468	16 917	19 468	16 917

Unearned future finance income on finance leases

	(382)	(332)	(382)	(332)
Net investment in finance leases	19 086	16 585	19 086	16 585

The net investment in finance leases may be analysed as follows:

Not later than 1 year	6 126	4 668	6 126	4 668
Later than 1 year and not later than 5 years	12 960	11 917	12 960	11 917
	19 086	16 585	19 086	16 585



## Corporate Information

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### Bankers:

Standard Bank Namibia

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