

Chairman's Review

On behalf of the Board of Directors, I am pleased to present the 13th Annual Report of Telecom Namibia, which summarises the company's main activities, challenges and achievements for the financial year ended September 30, 2005.

An imminent milestone in the company's history is the re-branding exercise that was launched by the Honourable Dr. Abraham Iyambo, Minister of Fisheries and Marine Resources, on behalf of Hon. Joël Kaapanda, Minister of Works, Transport and Communication on 28 September 2005 with a new brand identity, based on service quality and customer experience.



T Haimbili, Chairman

Economic Environment

Global economic performance exceeded expectations in 2004, with estimated strong 5.0% growth, while the prospects for 2005 are promising. The crucial downside risk remains the record high and volatile oil prices that are currently prevailing which could negatively affect the projected world growth output of 4.3% in 2005. The weak US Dollar and the high demand for energy are the main factors that led to a considerable increase in oil prices over the past months. This might have negative impact on inflation and growth. Global inflation is projected to remain low and stable in 2005.

Growth in Africa was 3.7% for 2003, which is far below an average growth rate of 7% per year required to achieve the targeted poverty reduction given in the Millennium Development Goals. Even the projected favourable growth rates of 4.6% and 5.8% for 2004 and 2005 respectively are still well below the required growth rate.

In Namibia, real GDP is projected to increase by about 4.4% in 2004. This increased growth rate, from 3.7% in 2003, is attributable to a recovery of the mining sector due to higher offshore

diamond output production as well as increased zinc and copper production. Inflation slowed down from 9.1% during 2003 to 3.9% in 2004, and the downward trend in inflation is still continuing in 2005.

The Namibian bank rate decreased to 7.50% in August 2004 after it remained unchanged at 7.75% since December 2003, following several interest rate cuts during 2003. Accordingly, the average prime-lending rate of the commercial banks decreased slightly from 12.50% to 12.25%.

Consumption expenditure, general government consumption, is also forecasted to grow in real terms from 3.4% in 2004 to 4.3% in 2005, which is consistent with the current government expenditure on individual and collective services as well as on goods and services, which is growing at 4.5% and 8.3% for the 2004/5 fiscal year in real and nominal terms, respectively.

Real investment level is also forecasted to grow positively. For 2004 and 2005, growth rates of -5.3 and 4.9% are projected, while the trade deficit is projected to improve to -1.6% of GDP in 2004 from -7.3% of GDP in 2003. It is

forecasted to improve further to -1.2% of GDP in 2005 as the world demand for the Namibian exports (diamond and zinc metal) improves. The current account surplus as a percentage of GDP is set to increase to 10.1% in 2004 from 8.0% in 2003. This is mainly due to the increases in SACU revenue. However, it is expected to drop to 2003 levels at 8.65% of GDP in 2005 due to reduced SACU receipts.

Regulatory Environment

The regulatory environment has been stable during the year under review. The next year is likely to see a new Communications Bill tabled in the National Assembly that could further open up the market for competition. The contents of the draft bill seek, inter alia, the implementation of recommendations on:

- A new and stronger Communications Authority
- Prohibition of anti-competitive practices
- Number portability
- Mandated interconnection terms
- Mandated sharing of basic infrastructure
- A Universal Service Fund
- Rates and Tariffs

As a company, Telecom Namibia is well positioned to remain competitive in all markets. We have no desire of entrenching our monopoly status in the fixed-line market. We believe increased competition is beneficial to the economy of Namibia. As much as we embrace the prospects of a totally liberalised telecommunications sector in Namibia, we equally anticipate competition on a level playing field.

Creating Shareholder Value

The overriding aim of your Board and management is to deliver better and more consistent results for Telecom Namibia. However, fiscal year 2004/5 was tough for Telecom Namibia. We experienced a sluggish business growth resulting from tough voice market conditions. This is reflected in our business results. As a result of the challenging environment, Telecom Namibia ended the year with revenue of N\$1.055 billion, 3.4% better than last year. This translates into dividends of 15.66 cents per share compared to 7.77 cents the previous year.

Operating profit is down by 26% to N\$138,2 million and net profit also decreased by 29% to N\$86,45 million. Our balance sheet improved with the cash and cash equivalent balance increasing to N\$223,3 million (2004: N\$202.7 million) and equity to N\$628,3 million (2004: N\$566 million). Our total liabilities decreased by 23% to N\$638,7 million.

Difficult as the operating environment might be, I remain optimistic that the depth of our skills and dedication of our staff will enable the shareholder to achieve acceptable returns going forward. During the year under review, the company spent N\$126,24 million on capital projects, bringing the total cumulative capital investment over the past seven years to about N\$1.06 billion. It is through such investments that we want to build a solid foundation for future growth.

Furthermore, we are exploring new, long-term revenue opportunities for Telecom Namibia in regional markets, such as Angola and South Africa in order to mitigate the negative effect on revenue in a small competitive market at home. Towards that goal, we acquired 44% of equity and shares in an Angolan fixed-line operator, MundoStartel. In South Africa, we are part of the CommuniTel consortium that was awarded a 13% stake in the Second National Operator (SNO). These two foreign ventures leave the company well positioned to deliver further growth and build value for our shareholder. We are excited about these new business opportunities and look forward to exploiting them in line with our vision.

Corporate Governance

Telecom Namibia conducts its business based on guiding principles of scientific excellence, ethics and integrity, and, above all, putting customers first. We believe that sound principles of corporate governance are an important key to Telecom Namibia's success and its ability to secure the confidence of its shareholder, customers and employees.

To us, good corporate governance starts at the top, both with the management of the company, and our Board of Directors and the role it takes in overseeing how management serves the long-term interests of Telecom Namibia and its shareholder. Following recent corporate scandals, the Board of Directors and the management of the company continued its evaluation process which, to date, has led to several positive advancements in our corporate governance.

Risk Management

Telecom Namibia recognises that an effective risk management programme is critical to ensure that it continues to provide unsurpassed services to its customers and, at the same time, enhance

shareholder value through consistent profitability. The company's profitability depends on its ability to keep the risk management process alive and embedded in all key business decision-making processes.

As such, the Board continues to acknowledge its responsibility in maintaining a sound system of internal control to safeguard our investment and the company's assets and for reviewing the effectiveness, adequacy and integrity of these systems.

Therefore, risk management initiatives within the company continue to be strengthened from time to time in response to the constantly evolving business and operational conditions. Management control through policies and guidelines are being constantly reviewed and updated to close the operational gaps between existing and new business processes. For example, the Board Risk Committee, established in 2003, identified a set of high-level Strategic Market Risks (Supply, Demand and Commercial Risks) during the financial year.

Sustainability Initiatives

BEE (black economic empowerment) fits logically into the drive for sustainability for all Namibian companies. Though a relatively new concept to Namibia and so for Telecom Namibia, we have already made the first moves to aid BEE initiatives that aim to embrace the previously disadvantaged in economic growth of the nation and bring about a decrease in income inequalities. Our understanding of BEE is anchored in six elements, namely: management, employment equity, skills development, preferential procurement, enterprise development and other residual elements.

Although Telecom Namibia, as a wholly owned Government entity, cannot provide equity ownership, it is totally focused on BEE and has already taken initiatives to support BEE in Namibia.



His Excellency Hifikepunye Pohamba, President of Namibia, with members of the Telecom Namibia Board of Directors and Management at State House.

We have set high employment equity targets and are vigorously implementing affirmative action measures and interventions to address the under representation of designated groups at all levels. Telecom Namibia provides exceptional training and development opportunities for all staff in terms of its Skills Development Plan.

Large amounts are spent on affirmative purchasing and procurement initiatives. Total spending on BEE amounted to 28% of all orders made last year, amounting to N\$65,7 million or 24.7% of procurement spending. This includes SMEs as resellers, civil works contractors, travel agencies with black equity, stationery, transport services, computer businesses, safety wear and equipment, and courier services. This creates much-needed buying power among the larger demographics of Namibia, thereby widening the market for Telecom Namibia's business.

The company's community and development programmes have been in place for many years, providing previously disadvantaged communities with telecommunication infrastructure and services to enable them to leapfrog into the information age.

In the light of the aforesaid, I am immensely proud of Telecom Namibia's track record of achievement in facilitating BEE activities and I am confident that we have the intellectual capital and commitment to sustain the momentum in this critical era of our business.

The Way Forward

Telecom Namibia has emerged from a difficult year with satisfactory financial results. The company has been strengthened in the process and we assure you that we intend to use our best endeavours to maintain profitable operations in the challenging years which, undoubtedly, lie ahead. In this connection, the emerging global marketplace, fueled by the wireless and IP revolutions, demands that organisations, such as ours, take steps to face fierce competition from all sources.

Our approach to business in 2006 and beyond will not be radically different from what it has been over our years driven by changing market conditions and technology. Consistency is the key. We have a powerful infrastructure and strong people, and we need to leverage the power of both to the maximum advantage of our company, employees, customers and shareholder. We will continue to

listen and care about customers, and be fully committed to cultivating diversity in our product offerings and employ a focused approach to innovation. And we will continue to focus constantly on creating sustained long-term value.

Acknowledgement

In closing, I wish to thank our loyal customers for their business, our suppliers for their support and our shareholder for their continued interest during the year. We also wish to thank management and employees of all our business units and corporate support divisions whose dedication, loyalty and commitment to service, contributed significantly to the achievement of these results.

Thank you for your trust in our ability to harness that foundation for continued growth and long-term success.

On behalf of the Board of Directors

T Haimbili
Chairman



The Telecom Network.