

Annual Financial Statements

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No director's report is presented as the company is a wholly-owned subsidiary of Namibia Post and Telecom Holdings Limited, a company incorporated in Namibia.

Corporate Governance Statement

for the year ended 30 September 2005

Telecom Namibia Limited is 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 company accordingly and in accordance with generally accepted corporate practices and in keeping with the company's policies and the laws of Namibia.

Board of Directors

The board meets regularly, retains control over the company 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 company. 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 company'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 company'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.

Company Secretary and Professional Advice

All directors have access to the advice and services of the company 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 company and at the company's expense.

Delegation of Authority

The board retains control over its operations and has established the following sub-committees:

1. Audit Committee

A Board-approved Charter, which defines this committee's responsibilities, was adopted. Its main responsibilities are to:

- Review the company's annual report;
- Evaluate the effectiveness of the internal audit function and approve the annual internal audit plan;
- Receive the external auditors reports, approve their plans, scope and findings; and
- Evaluate and propose to the board the company's business plan and budget.

The Committee meets with executive management as well as the internal and external auditors at least four times per annum. Both the internal and external auditors have unrestricted access to the Committee.

2. Risk Management Committee

The main task of this body is to approve the activities, scope, adequacy and effectiveness of the company's risk management and regulatory procedures.

This committee meets at least twice per annum with executive management. The Committee was established in 2003 and is fully functional.

3. HR Committee

The main tasks of this Committee are:

- To develop the company's policy on remuneration;
- Review employment equity and skills development plans;
- Approve all policies regarding employment and service conditions; and

- Determine the mandate given to management for annual increases.

The Committee meets with executive management at least twice per annum.

Internal Control Systems

The company maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorized acquisition, use or disposition, all designed to provide reasonable assurance to the company's management and board of directors regarding the preparation of reliable published financial statements and the safeguarding of the company's assets. The system includes a documented organizational structure and division of responsibility, established policies and procedures, which is communicated throughout the company 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.

Code of Ethics

The board subscribes to the principles of transparent and honest corporate governance and is in the process of adopting a code of ethics.

Statement of Responsibility

by the Board of Directors

The directors are responsible for the maintenance of adequate accounting records and preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with Namibian Statements of General Accepted Accounting Practice and in the manner required by the Namibian Companies Act, 1973.

The directors are also responsible for the company's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets and to prevent and detect misstatements and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future.

The financial statements were approved and authorized for issue by the board of directors on 15 February 2006.



T Haimbili
Chairman



FJP Ndoroma
Managing Director

Report of the Independent Auditors

to the Member of Telecom Namibia Limited

We have audited the annual financial statements of Telecom Namibia Limited set out on pages 44 to 64 for the year ended 30 September 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of Namibian Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion these financial statements fairly present, in all material respects, the financial position of the company at 30 September 2005 and the results of its operations and cash flows for the year then ended in accordance with Namibian Statements of Generally Accepted Accounting Practice and in the manner required by the Namibian Companies Act..



PriceWaterhouseCoopers
Chartered Accountants (Namibia)

Windhoek

15 February 2006

Balance Sheet

as at 30 September 2005

	Notes	2005 N\$'000	2004 N\$'000
Assets			
Non-current assets			
Plant and equipment	21	797 281	824 427
Investments	22	64 344	189 058
		861 625	1 013 485
Current assets			
Inventories	23	25 094	33 457
Accounts receivable	24	152 526	136 507
Amounts owing by fellow subsidiaries	36	4 242	4 910
Amounts owing by holding company	36	247	-
Cash and cash equivalents	25	223 262	202 718
		405 371	377 592
Total assets		1 266 996	1 391 077
Equity and Liabilities			
Capital and reserves			
Share capital	26	154 530	154 530
Retained earnings		473 762	411 516
		628 292	566 046
Non-current liabilities			
Retirement benefit obligations	34	44 072	38 602
Long-term liabilities	27	169 706	237 692
Deferred tax	29	203 192	219 489
		416 970	495 783
Current liabilities			
Trade and other payables	30	197 046	301 554
Bank overdraft	25	19 424	6 644
Amount owing to fellow subsidiary	36	347	128
Amount owing to holding company		-	226
Receiver of Revenue	31	4 917	20 696
		221 734	329 248
Total liabilities		638 704	825 031
Total equity and liabilities		1 266 996	1 391 077

Income Statement

for the year ended 30 September 2005

	Notes	2005 N\$'000	2004 N\$'000
Revenue	14	1 055 275	1 020 439
Other operating income		3 091	2 998
Distribution costs		(270 360)	(276 834)
Administrative expenses		(634 462)	(542 687)
Other operating expenses		(17 171)	(17 964)
Operating profit	18	136 373	185 952
Financial items	19	(3 644)	(16 707)
Profit before tax		132 729	169 245
Tax	20	(48 121)	(48 234)
Net profit for the year		84 608	121 011

Statement of Changes in Equity

for the year ended 30 September 2005

	Notes	2005 N\$'000	2004 N\$'000
Share capital			
Ordinary shares			
At beginning and end of year	26	154 530	154 530
Retained earnings			
Balance: beginning of year		411 516	306 737
As previously stated	39	434 926	325 915
Prior year adjustment		(23 410)	(19 178)
Net profit for the year	39	84 608	116 779
As previously stated		84 608	121 011
Prior year adjustment		-	(4 232)
Dividends		(24 202)	(12 000)
Balance: end of year		471 922	411 516
As previously stated		471 922	434 926
Prior year adjustment		-	(23 410)
Dividends of 15,66 cents per share were paid during the year (2004: 7,77 cents).			

Cash Flow Statement

for the year ended 30 September 2005

	Notes	2005 N\$'000	2004 N\$'000
Cash flow from operating activities			
Operating profit		138 213	185 952
Adjustment for:			
Increase in post-retirement benefit obligation		5 470	8 882
Depreciation		153 388	136 500
Profit on disposal of plant and equipment		(330)	(119)
Working capital changes	35	(111 750)	75 294
Cash generated from operations		184 991	406 509
Investment income		1 618	1 434
Financial costs		(5 262)	(18 141)
Dividends		(24 202)	(12 000)
Tax paid	31	(80 197)	(6 195)
Net cash flow from operating activities		76 948	371 607
Cash flow from investing activities			
<i>Expenditure for expansion</i>			
Plant and equipment aquired		(126 244)	(132 665)
Decrease/(increase) in investment		124 714	(33 732)
Proceeds on disposals – Plant and equipment		332	154
Net cash flow used in investing activities		(1 198)	(166 243)
Cash flow from financing activities			
Net long-term loans repaid		(67 986)	(144 638)
Net cash flow used in financing activities		(67 986)	(144 638)
Net increase in cash and cash equivalents		7 764	60 726
Cash and cash equivalents at beginning of year		196 074	135 348
Cash and cash equivalents at end of year	25	203 838	196 074

Notes to the Financial Statements

for the year ended 30 September 2005

1. Basis of preparation

The annual financial statements are prepared in accordance with and comply with Namibian Statements of Generally Accepted Accounting Practice. The annual financial statements are 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.

2. 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.

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	10% - 50%

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 company. 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.

3. Inventories and work in progress

Inventories are stated at the lower of cost or 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.

4. 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, provision for doubtful debts, 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.

5. Investments

The company's listed and unlisted equity investments are classified as financial assets available-for-sale. The classification is dependent on the purpose in acquiring the investments. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Investments 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, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Purchases and sales of available-for-sale investments are recognised on the trade date at cost, including transaction costs. Investments are

Notes to the Financial Statements

for the year ended 30 September 2005

subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in equity. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments, as well as any additional amounts, are included in the income statement as gains and losses from investments. The fair values of these investments are based on quoted bid prices or amounts derived from cash flow models.

The company's other investments and investments in debt are classified as loans originated by the enterprise. These investments are carried at amortised cost.

6. 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 company 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.

7. 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.

8. Provisions

Provisions are recognised when the company 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.

9. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Such balances are translated at year-end exchange rates.

10. Leases

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

ways of penalty is recognised as an expense in the period in which termination takes place.

11. Dividends

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

12. 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 ever is the shorter.

13. Post-retirement obligations

The company provides post-retirement pension fund and medical aid benefits to their retirees (refer note 34). 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.

14. Revenue

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax.

Notes to the Financial Statements

for the year ended 30 September 2005

Sales are recognised upon delivery of products and customer acceptance, if any, or performance of service, net of VAT.

Other revenue earned by the company is recognised on the following basis:

- Interest income: as it accrues (taking into account the effective yield on the asset), unless collectability is in doubt.

Income received for services which have not yet been rendered, are deferred.

15. Financial instruments

(i) Financial risk factors

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

Interest rate risk

The company'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 company borrows from financial institutions at interest rates varying between 10,96% and 19% (2004: 10,96% and 19%).

Credit risk

The company has policies in place to ensure that sales of products and services are made to

customers with an appropriate credit history. The company 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 company 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 company's outstanding contracts were:

EUR 999 492 N\$7,66 = EUR 1

(ii) Fair value estimation

In assessing the fair value of financial instruments, the company 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 company for similar financial instruments.

16. 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.

17. Impairment of assets

Plant and equipment and other non-current assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount, that is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
18. Operating Profit		
The following items have been charged/(credited) in arriving at operating profit:		
Auditors' remuneration		
Audit fees - current year	434	396
Underprovision: previous year	-	103
Other services – current year	156	79
	590	578
Directors' emoluments		
For management	903	894
As directors	298	241
	1 201	1 135
Profit on disposal of plant and equipment	(330)	(119)
Operating lease rentals		
Land and buildings	25 752	23 466
Motor vehicles	17 482	18 130
Cost of sales	13 777	23 208
Staff costs		
Salaries and wages	148 773	142 452
Medical aid contributions	15 149	14 121
Pension fund contributions	23 462	22 303
Social Security Commission contributions	469	480
Number of staff members at year-end	1 463	1 516

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
19. Financial items		
Interest received	40 953	33 537
Less: Interest paid	(45 833)	(53 464)
Long-term loans and promissory notes	(42 633)	(50 264)
Other interest	(3 200)	(3 200)
Foreign currency gains/(losses)	1 236	3 220
Realised	1 406	-
Unrealised	(170)	3 220
	(3 644)	(16 707)
20. Tax		
Namibian normal income tax	(64 418)	(26 891)
Deferred tax		
Current year timing differences	16 297	(33 070)
Prior year adjustment	-	11 727
Tax charge for the year	(48 121)	(48 234)
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before tax	132 729	169 245
Tax calculated at a tax rate of 35% (2004: 35%)	(46 455)	(59 236)
Expenses not deductible for tax purposes	(1 666)	(725)
Prior year adjustment	-	11 727
Tax charge	(48 121)	(48 234)

Notes to the Financial Statements

for the year ended 30 September 2005

	Telecom installations and equipment N\$'000	Furniture and fittings N\$'000	Capital work in progress N\$'000	Motor vehicles N\$'000	Total N\$'000
21. Plant and equipment					
Year ended 30 September 2005					
Cost					
Beginning of year	1 546 529	233 640	146 674	2 747	1 929 590
Additions	-	62 329	63 915	-	126 244
Disposals	-	(658)	-	(306)	(964)
Transfers	140 132	-	(140 132)	-	-
End of year	1 686 661	295 311	70 457	2 441	2 054 870
Accumulated depreciation					
Beginning of year	892 217	210 248	-	2 698	1 105 163
Depreciation charge	136 393	16 984	-	11	153 388
Depreciation on disposals	-	(656)	-	(306)	(962)
End of year	1 028 610	226 576	-	2 403	1 257 589
Bookvalue at 30 September 2005	658 051	68 735	70 457	38	797 281
Year ended 30 September 2004					
Cost					
Beginning of year	1 490 125	220 292	83 933	6 079	1 800 429
Additions	-	13 445	119 145	75	132 665
Disposals	-	(97)	-	(3 407)	(3 504)
Transfers	56 404	-	(56 404)	-	-
End of year	1 546 529	233 640	146 674	2 747	1 929 590
Accumulated depreciation					
Beginning of year	768 560	197 514	-	6 058	972 132
Depreciation charge	123 657	12 821	-	22	136 500
Depreciation on disposals	-	(87)	-	(3 382)	(3 469)
End of year	892 217	210 248	-	2 698	1 105 163
Bookvalue at 30 September 2004	654 312	23 392	146 674	49	824 427
Certain of the fixed assets have been encumbered as stated in note 27.					

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
22. Investments		
<i>Available for sale</i>		
0,05% Participating interest in International Telecommunications Satellite Organisation (INTELSAT), based in Washington DC, at fair value.	-	7 779
50 000 shares in New Skies Satelites at NLG1,00 each, at fair value.	-	2 526
	-	10 305
<i>Loans originated</i>		
Standard Bank: Sinking Fund Deposit	-	120 725
Bank Windhoek: Ceded deposit	64 344	58 028
The deposit earns interest at 18,7% (2004: 18,7%) p.a. The deposit was ceded as security for a Bank Windhoek loan account (refer note 27).		
	64 344	189 058
At beginning of year	189 058	155 326
Additions	6 316	34 472
Disposals	(120 725)	-
Proceeds on disposal	(12 521)	-
Foreign exchange revaluation	-	(740)
Profit on disposal	2 216	-
At end of year	64 344	189 058
23. Inventories		
Materials for installations	22 214	30 400
Workshop and consumable stores	693	736
Goods for resale	2 187	2 321
	25 094	33 457

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
24. Accounts receivable		
Trade receivables		
Total trade receivables	122 059	132 464
Less: Provision for impairment	(14 292)	(9 157)
Other debtors	44 759	13 200
	<u>152 526</u>	<u>136 507</u>
25. Cash and cash equivalents		
Bank balances	217 121	191 532
Cash on hand	6 141	11 186
	<u>223 262</u>	<u>202 718</u>
For the purpose of the cash flow statement the year-end cash and cash equivalents comprise the following:		
Bank balances	217 121	191 532
Cash on hand	6 141	11 186
Bank overdraft	(19 424)	(6 644)
	<u>203 838</u>	<u>196 074</u>
26. Share capital		
Authorised		
200 000 000 (2004: 200 000 000) ordinary shares of N\$1 each	<u>200 000</u>	<u>200 000</u>
Issued		
154 529 936 (2004: 154 529 936) ordinary shares of N\$1 each	<u>154 530</u>	<u>154 530</u>

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
27. Long-term liabilities		
Secured		
Delayed secured interest promissory notes issued to Standard Bank Namibia	-	120 743
Loan from European Investment Bank		
The company has entered into currency swap agreements that entitle it to pay interest at rates varying between 10,96% and 11,7% p.a. (2004:10,96% and 12,04% p.a.) The capital amount is repayable in 10 (2004: 12) semi-annual instalments with the final instalment due in 2010. 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.	84 030	96 062
The following foreign amounts were outstanding at year-end in respect of this loan and the following exchange rates were used:		
EUR 7 490 562 N\$7,66 = EUR 1		
GBP 3 037 351 N\$11,224 = GBP 1		
USD 946 727 N\$6,37 = USD 1		
Loan from Bank Windhoek Limited	71 634	68 802
The Bank Windhoek loan account is currently bearing interest at a fixed rate of 19% (2004: 19%). The capital amount is repayable in 4 (2004: 5) semi-annual instalments, with the first payment due in April 2005 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% (2004: 18,7%) p.a.		
Balance carried forward	155 664	285 607

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
27. Long-term liabilities (continued)		
Balance brought forward	155 664	285 607
First National Bank of Namibia Limited	18 435	25 000
Promissory notes of N\$50 million issued to First National Bank of Namibia Limited at a fixed interest rate of 15,5% (2004 : 15,5%) p.a for 10 years. Telecom Namibia Limited simultaneously deposited N\$ 50 million with First National Bank on the same conditions as those applicable to the promissory notes. This deposit, with all rights, title and interest in and the right to receive payment of the loan together with all accrued interest thereon was ceded to First National Bank of Namibia Limited as security for the settlement of the promissory notes. First National Bank then provided a separate N\$50 million variable funding facility to be repaid over the term of the transaction at an effective interest rate of 15,6% (2004: 15,6%) p.a. The facility is repayable in 4 (2004: 6) bi-annual instalments of N\$5 684 668 (2004: N\$6 301 847) each, with the final instalment due in 2007. The interest is capitalised to the loan. Suretyship for N\$50 million has been provided to the bank by the holding company.		
- Funding facility	18 435	25 000
- Promissory notes plus capitalised interest	229 835	191 286
- Less: Deposit ceded plus capitalised interest	(229 835)	(191 286)
Telecom Namibia registered loan stock bearing interest at 16% (2004 : 16%) p.a, paid bi-annually in arrears. The capital amount is repayable in 2007. The bonds were issued at a premium of N\$125 786.	20 535	20 535
Loan from Kreditanstalt für Wiederaufbau (KfW) channelled through the Government of the Republic of Namibia bearing interest at 2% (2004: 2%) p.a. The loan is repayable in 7 (2004: 9) semi-annual instalments. The loan of Euro 999 492 (2004: EUR 1 289 224) has been stated at spot rate of N\$7,66 (2004: N\$7,97). Also refer note 31.	7 653	10 273
Balance carried forward	202 287	341 415

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
27. Long-term liabilities (continued)		
Balance brought forward	202 287	341 415
First National Bank of Namibia Limited, and Bank Windhoek Limited	24 000 6 000	43 964 11 000
These loans bear interest at 8,49% (2004: 9,03%) p.a. The capital amounts are repayable in 1 (2004: 2) annual instalments, with the final instalment payable in March 2006. Interest is paid semi-annually on the outstanding capital amount.		
The instalments are payable as follows:		
2006 N\$30 million	232 287	396 379
Less: Short-term portion transferred to accounts payable	(62 581)	(158 687)
	169 706	237 692
Maturity of non-current borrowings (excluding finance lease liabilities):		
Not later than 1 year	62 581	158 687
Later than 1 year and not later than 5 years	169 706	237 692
	232 287	396 379
28. Total interest bearing borrowings		
- Long-term loans	169 706	358 435
- Short-term loans	62 581	37 944
- Bank overdrafts	19 424	6 644
	251 711	403 023

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
29. Deferred tax		
Deferred income taxes are calculated on all temporary differences under the comprehensive method using a principal tax rate of 35% (2004: 35%).		
The movement on the deferred income account is as follows:		
At beginning of year	219 489	198 146
Movements during year attributable to:		
Timing differences	(16 297)	33 070
Prior year adjustment	-	(11 727)
At end of year	203 192	219 489
Deferred tax liabilities may be analysed as follows:		
Depreciation on plant and equipment	232 788	240 996
Provisions	(21 478)	(15 915)
Advanced income	(8 118)	(5 592)
	203 192	219 489
30. Trade and other payables		
Trade payables	192 798	298 058
Foreign exchange contracts (refer note 27)	4 248	3 496
	197 046	301 554
31. Receiver of Revenue		
Balance at beginning of year	20 696	-
Charge to income statement	48 121	48 234
Deferred tax adjustment	16 297	(21 343)
Balance at end of year	(4 917)	(20 696)
Payments made	80 197	6 195

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
32. Capital expenditure approved		
Commitments in respect of contracts placed	1 052	150 000
	1 052	150 000
It is intended to finance capital expenditure from existing borrowing facilities and from working capital generated within the company		
33. Pension Fund		
At the financial year-end, all the permanent employees of the company 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 company's contribution amounts to 16% of basic salary.		
An actuarial valuation was carried out at 16 August 2004 for the year ended 30 September 2003, which indicated that the fund was in a sound financial position.		
34. Post retirement benefits		
The company provides post employment benefits by way of a medical aid scheme.		
Medical scheme:		
The company continues to pay two thirds of total contributions towards the medical scheme when an employee becomes redundant, disabled or when an employee retires.		

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
34. Post retirement benefits (continued)		
The liability created in terms of the transitional requirements of the revised AC 116 (employee benefits) amounts to N\$44 072 000 (2004: N\$38 602 000). The principal actuarial assumptions used for accounting purposes were:		
- Real rate of return	2%	2%
- Discount rate	8,5%	10,5%
- Medical inflation rate	6,5%	8,5%
Balance at beginning of year	38 602	29 720
Current service cost	2 081	2 492
Interest cost	4 019	3 895
Miscellaneous item	477	2 510
Actuarial profit	(1 107)	(15)
Balance at end of year	44 072	38 602
Particulars in respect of the current employee members belonging to the medical aid for which the company has a post-retirement medical aid liability as at the investigation date are as follows:		
Number of employees	1 160	1 373
Average age (years)	38,75	39,5
Details of the current pensioner members belonging to the medical aid are as follows:		
Number of employees	198	126
Average age (years)	57,65	58,2

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
35. Working capital changes		
Decrease in working capital during the year		
Decrease/(increase) in inventories	8 363	(9 222)
Increase in accounts receivable	(16 019)	(15 470)
(Decrease)/increase in accounts payable	(102 668)	93 621
Increase/(decrease) in indebtedness to fellow subsidiaries	219	(16)
Decrease in indebtedness by fellow subsidiaries	668	6 188
(Decrease)/increase in amount owing to holding company	(226)	193
Increase in amount owing by holding company	(247)	-
	(109 910)	75 294

36. Related party transactions

The company is controlled by Namibia Post and Telecom Holdings Limited (incorporated in Namibia) which owns 100% of the company's shares.

The following transactions were carried out with related parties:

i) Sales of services

Namibia Post Limited: N\$30 789 000 (2004: N\$19 234 450)

Mobile Telecommunications Limited: N\$ 77 736 886 (2004: N\$72 987 737)

Namibia Post and Telecom Holdings Limited is the company's holding company whilst Namibia Post Limited and Mobile Telecommunications Limited are fellow subsidiaries. Sales were carried out on commercial terms and conditions.

ii) Purchases of services

Namibia Post and Telecom Holdings Limited: N\$42 523 123
(2004: N\$38 136 523)

Namibia Post Limited: N\$288 004 (2004: N\$1 942 952)

Mobile Telecommunications Limited: N\$145 575 928 (2004: N\$142 727 486)

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

Notes to the Financial Statements

for the year ended 30 September 2005

2005
N\$'000

2004
N\$'000

36. Related party transactions (continued)

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

Receivables from related parties:

Namibia Post Limited: N\$4 242 056 (2004: N\$4 910 311)

Namibia Post & Telecom Holdings Limited: N\$247 436 (2004: N\$-)

Payables to related parties:

Namibia Post Limited: N\$346 761 (2004: N\$128 021)

Namibia Post and Telecom Holdings Limited: N\$- (2004: N\$226 039)

iv) *Suretyships*

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

- Suretyship for N\$30 000 000 (2004: N\$30 000 000) has been provided to Standard Bank Namibia in respect of promissory notes.
- Suretyship for N\$50 000 000 (2004: N\$50 000 000) has been provided to First National Bank of Namibia Limited in respect of a funding facility provided.
- Negative pledge to Standard Bank of Namibia.

37. Operating lease commitments

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

- Not later than one year	29 642	21 741
- Later than one year, but not later than five years	27 579	13 494

Notes to the Financial Statements

for the year ended 30 September 2005

	2005 N\$'000	2004 N\$'000
38. Guarantees		
The company has a contingent liability in favour of Standard Bank Namibia in respect of guarantees supplied by the bank on behalf of the company:		
The guarantees are:		
China Jiangsu International	139	139
Namibia Power Corporation	-	378
KCC (Pty) Ltd	12	12
Stocks & Stocks Namibia (Pty) Ltd	-	25
New Era Investment	-	10
The Supreme Court for the District of Windhoek	20	20
Vantage Enterprises CC	12	12
Keibeb Construction CC	12	12
	195	608

39. Prior year adjustment

In previous years the company only provided for prepaid rentals on individual lines. In the current year this provision was corrected to include all the line rentals charged in advance. This resulted in a decrease in opening retained earnings of N\$23 410 000 (2004: N\$19 178 000).

The effect on the net profit for the year is N\$1 243 018 (2004: N\$4 232 000). The above adjustments does not have any tax effect.

40. Contingent liabilities

In respect of the current year under review, the company declared imports to the value of N\$3 182 790. According to the Asycuda ++ system used by customs, imports to the value of N\$10 658 011 were done on the import VAT number of the company, resulting in a difference of N\$7 475 220. The company is currently investigating this difference, to determine the potential import VAT liability to the Receiver of Revenue.

The company is currently busy with arbitration proceedings instituted by Africa Telecommunications (Pty) Ltd ('Afritel'). The arbitration was agreed between the parties in order to resolve claims for damage by Afritel of some US\$20 million and certain counterclaims by Telecom against Afritel. The claims and counterclaims arise from or relate to four agreements that were entered into. Under one of the agreements Telecom agreed to provide certain hub use services to Afritel. Afritel cancelled this hub use agreement on the basis of a number of alleged breaches by Telecom pertaining to the services Afritel claims Telecom was required to provide to Afritel and its customers. Following the cancellation Afritel instituted claims for damages.

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