

Managing Director's Report

The past financial year ended 30 September 2005, Telecom Namibia performed satisfactorily, with revenue exceeding the N\$1 billion level for the second time in the face of a generally subdued traditional telephony business segment. Our strategy is to continuously reinforce focus on the data and IP part of our business, to leverage research and development and innovation, have greater emphasis on international business and to maximise operational efficiencies.

Our performance, activities, and achievements during the past year reflect this strategy's ongoing implementation and efficacy.



FJP Ndoroma, Managing Director

There is still a huge demand for voice service in Namibia, but the growth of mobile is significantly eroding fixed-line voice margins. In view of this, our company is aggressively pursuing new opportunities by expanding into new technologies, moving into new markets and areas, and offering new solutions that can literally change the way our customers do business. For Telecom Namibia, this is a time of unprecedented possibility as we blaze a new trail to tomorrow.

Walvis Bay Initiatives

During the year, we adopted new company wide initiatives designed to set the foundation for the long-term survival of Telecom Namibia in a competitive market, with a sharp focus on improving financial performance, customer satisfaction and employee satisfaction.

Ongoing progress in the areas of workforce rationalisation, customer relationship management and service provisioning and assurance are inextricably bound to result in cost savings, improved customer service and increased efficiencies.

We recognise the need to generate growth in revenues and the need to change our business

model as our marketplace changes. We are moving forward with a strategy of growth and transformation for the future that will assist us in our goal of becoming the trusted, first choice for communications customers in Namibia. We plan to change our business model, customer service experience, products and services, internal systems, workforce and infrastructure in the next years to respond to and leverage the impact of mobile and IP-based technologies.

With the advent of new technologies, I believe Telecom Namibia is in an unprecedented position to take full advantage of opportunities to improve the competitiveness of the fixed-line segment by introducing innovative new products, services and technologies. The key here is to get new products and new product bundles to market as quickly as possible and at the best possible price. In addition, our plans include broadening the portfolio of value-added data services and growing our wireless and Internet presence, with increased emphasis on establishing a broadband capability to improve customer experience.

The other initiative is to invest in internal capabilities to meet the new demands of the market and evolving technologies. In the last year

about N\$8,53 million was spent on the training and development of employees, totaling 2.83% of the company's annual payroll.

Our "Live the Value" initiative is also of paramount importance. We are seeing a dramatic transformation in the company workforces, from a fragmented culture struggling to define its identity to a team that today is unified under a common set of values. Today, more than 75% of employees feel that their personal values are in alignment with that of the company.

Financial Performance

Despite the challenging economic environment we faced, compounded by intense competition especially in our traditional revenue streams of data and voice, Telecom Namibia posted record net revenues of N\$1,055 billion this year, up 3.4% from N\$1,020 billion for the year ended September 30, 2004. This was mainly as a result of growth in data and related services.

Operating income however, decreased year on year by 26% or N\$47,7 million to N\$138 million. This is mainly attributable to increased labour cost and the outlays for the Voluntary Separation

Programme packages of N\$26,5 million which were settled at year end. The significance of this exercise is that operating costs for 2006 and beyond should be materially lower due to direct and indirect labour cost savings.

Telecom Namibia continued to invest in the infrastructure and in its regional ventures. An amount of N\$126 million was spent on the expansion and modernisation of the company's infrastructure. The Mundo Startel shareholding of 44% was finalised at an equity cost of U\$4,29 million. Due to sustained levels of cash flow, all of these investments were financed from own operations. The long term debt position improved due to capital repayments amounting to N\$68 million, thus increasing our equity to debt ratio to 0.96 times.

Corporate Identity

The most important milestone for Telecom Namibia during the last financial year was the introduction of a fresh and new logo and the re-branding of the entire company. One of our strategic imperatives is to go to the market as a

unified team, under a common brand, executing a single strategy. To this end, we have taken a disciplined approach to integrating our "house of brands" and presenting ourselves to the marketplace in a consistent fashion.

Our brand promise is "sharing your world" and we need to apply the same fresh, natural and non-technical creative approach to communicating with the market. It is our commitment to the mission, values, and high-performance behaviours that drive the way we do business. Employees across the company helped shape this promise through extensive debates and discussions. This is important; the "sharing your world" promise commits us to the practice of high performance.

Customer Relations Management

The success of our business is dependent upon our ability to build strong, long-term relationships with our customers. We attribute our business momentum to the disciplined execution of this strategy, which enables us to better understand

our customers' business needs and provide proactive solutions that help them focus on their customers and achieve profitable growth. Our long-term customer relationships are key to our financial strength and are a springboard for growth. We have also made it a priority to increase our operating efficiency. By streamlining our business processes and improving our internal cost structure, we are able to operate more efficiently and deliver greater value to both our customers and our shareholder.

Corporate Social Responsibility (CSR)

Telecom Namibia is committed to achieving strong levels of operational excellence and financial performance in a manner consistent with best standards of corporate social responsibility (CSR). Our CSR programme has a key role to play in meeting our stakeholders' expectations and encouraging them to do business with us. In the report, you will find a fuller treatment of our approach to corporate governance, environment, health, safety, fair employment and community relations.



Celebrating the birth of a new corporate identity.

Helping our customers to benefit from improved communications and increased connectivity continues to be our core business. We understand that to bring about the true economic empowerment of Namibians, a sustained and real investment in previously disadvantaged communities is required. The big opportunity is to use Information Communication Technology (ICT) products and services to promote sustainability, not only in the way we run our own business, but by helping our customers to benefit too.

Our company has been active in the social investment arena for some time and considers it to be one of the company's key principles, forming an essential part of the organisation's core values. The CSR programme is an extension of Telecom Namibia's direct business model philosophy, and supports innovative programmes that equip schools for success in the digital world and provides financial support aimed at education, health and other relevant social development areas. In addition, Telecom Namibia partners with other organisations to help empower communities to address the basic needs of children, such as food, safety and healthcare.

For the years ahead, business transformation is critical to delivering growth to our business. This will bring new challenges for our CSR programme, which I am confident it will meet.

Beyond 2005

The successes of last year provide tremendous momentum as we approach 2006 and beyond. That momentum will be critical as we face continuing challenges. One of our biggest challenges is the pressure of mounting competition, especially in the voice segment, and taking Namibia into the beckoning IP era. We will continue to enhance voice services with new features and creative pricing, whilst



simultaneously pushing data and broadband services more strongly into the market where future growth lies. More importantly, international ventures will be pursued thereby sourcing business across the borders to ensure long-term profitability.

We will achieve our business goal by continuing to focus on four critical areas: 1) growing our customer base, 2) enhancing our competitive position, 3) controlling costs, and 4) concentrating on customer service while enhancing our margins. We will capitalise on opportunities for vertical growth by layering new services onto our networks and creating innovative ways to bundle and price them, and continue to drive the growth of our existing services.

Our key focus areas will be the following:

- Building a strong brand and boost revenue by leading the way in introducing 3G services, thereby improving every customer experience.
- Deploying a stronger and more focused marketing and sales strategy to promote our full range of products and services.
- Instilling total dedication to customer care and service at all customer touch points.
- Empowering our employees and developing a spirit of shared values that will ultimately create a culture of excellence.

Appreciation

I am grateful to all our Telecom employees who rose to the challenge to help drive the business forward during the last financial year. Through their hard work and perseverance, we have managed to maintain service levels overall. Our hopes for the future lie in their continued dedication, hard work and innovation.

I will watch that commitment as it will continue to be at the forefront of the Telecom Namibia team as we eagerly embrace new opportunities for our company. Indeed, we are more excited about the future than we were when our company began in 1992. I hope you will join me in looking forward to the years ahead with enthusiasm and anticipation.

Lastly, I am very much indebted to the Board of Directors for their enlightened guidance, counsel and support.

FJP Ndoroma
Managing Director