telecom namibia

annual report

2005/2006

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Contents

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.

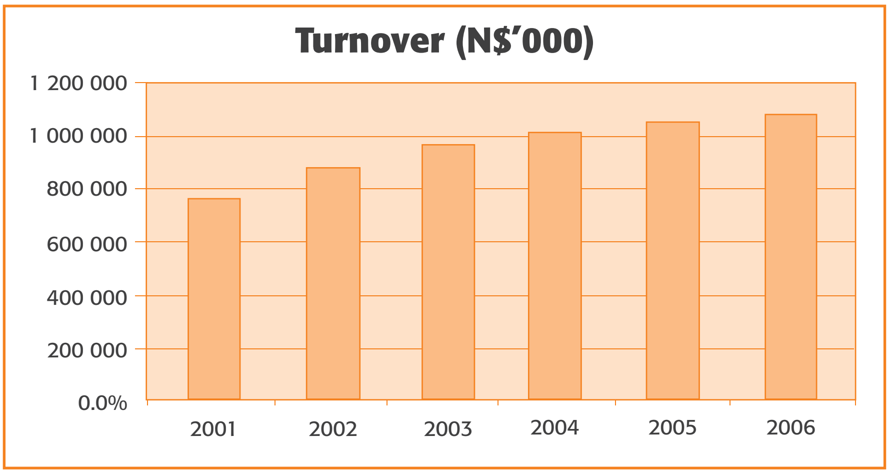
Telecom Namibia Head Office
Lüderitz Street, Windhoek.

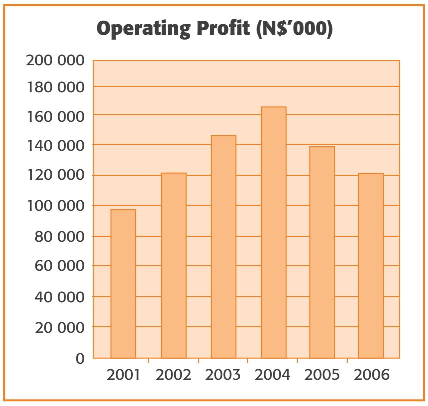
General Highlights

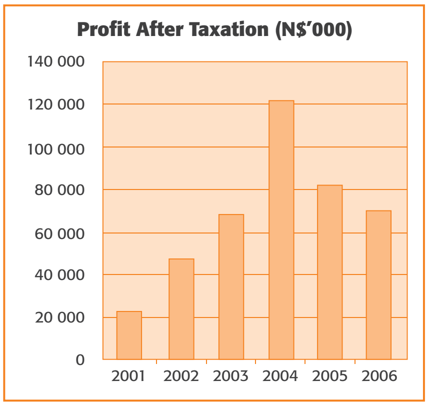
FinancialHighlights

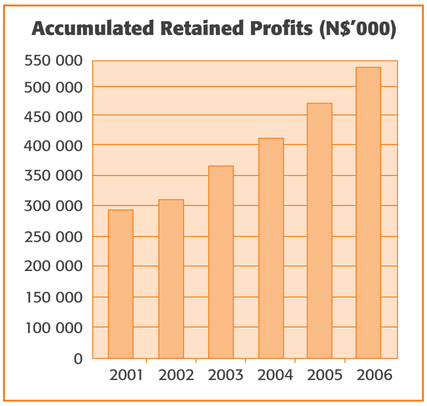
	2001 N$'000	2002 N$'000	2003 N$'000	2004 N$'000	2005 N$'000	2006 N$'000
Turnover	764 220	96 284	981 048	1 020 439	1 055 275	1 057 748
Operating Profit	97 405	125 298	148 654	185 952	132 729	130 786
Profit after Tax	26 608	47 465	69 851	121 011	84 608	84 143
Retained Profits	240 350	264 064	325 915	411 516	471 922	539 123
Nett Fixed Assets	924 738	860 130	828 297	824 427	797 281	792 403
Long term Liabilities	372 900	406 568	382 330	237 692	169 706	119 764
Equity	394 880	418 594	480 445	566 046	626 452	693 653
Capital Projects	202 115	94 804	130 905	132 665	126 244	170 009
Equity to Debt Ratio	1.06	1.03	1.26	2.38	3.70	5.79
Return on Fixed Assets	2.88%	5.52%	8.43%	14.68%	10.61%	10.62%

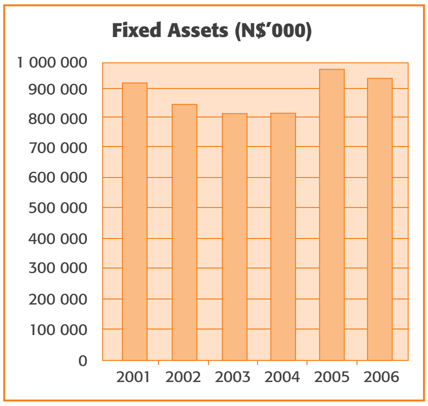
The Windhoek Satellite Earth Station
- Namibia's International Gateway.

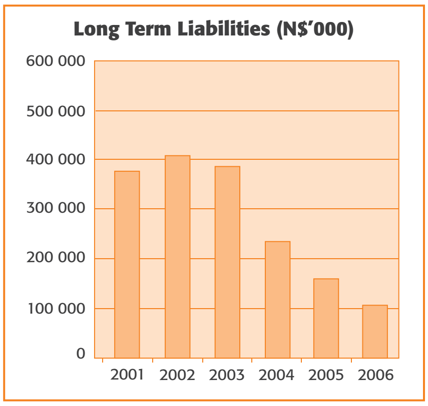

Turnover (N$'000)
1 200 000
1 000 000
800 000
600 000
400 000
200 000
0.0%
2001
2002
2003
2004
2005
2006

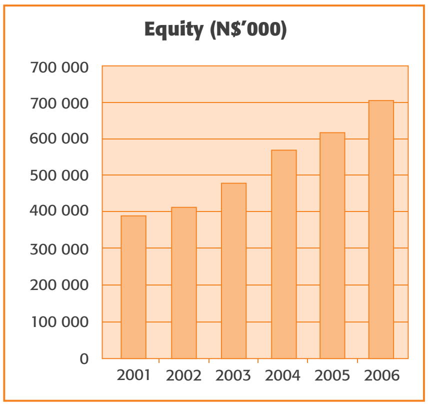

Operating Profit (N$'000)
200 000
180 000
160 000
140 000
120 000
100 000
80 000
60 000
40 000
20 000
0
2001
2002
2003
2004
2005
2006

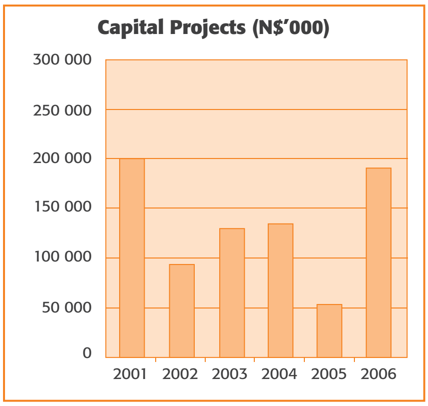

Profit After Taxation (N$'000)
140 000
120 000
100 000
80 000
60 000
40 000
20 000
0
2001
2002
2003
2004
2005
2006

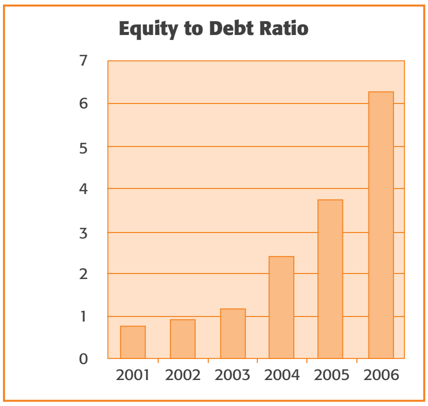

Accumulated Retained Profits (N$'000)
550 000
500 000
450 000
400 000
350 000
300 000
250 000
200 000
150 000
100 000
0
2001
2002
2003
2004
2005
2006

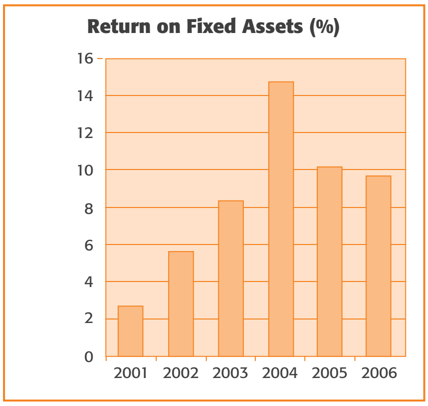

Fixed Assets (N$'000)
1 000 000
900 000
800 000
700 000
600 000
500 000
400 000
300 000
200 000
100 000
0
2001
2002
2003
2004
2005
2006

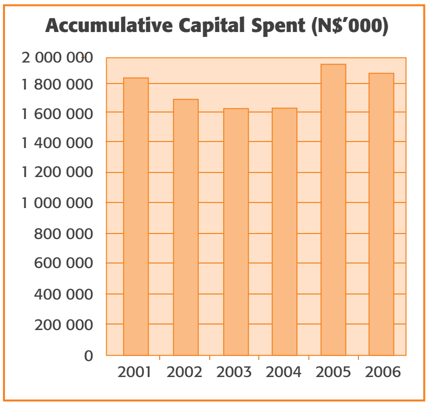

Long Term Liabilities (N$'000)
600 000
500 000
400 000
300 000
200 000
100 000
0
2001
2002
2003
2004
2005
2006

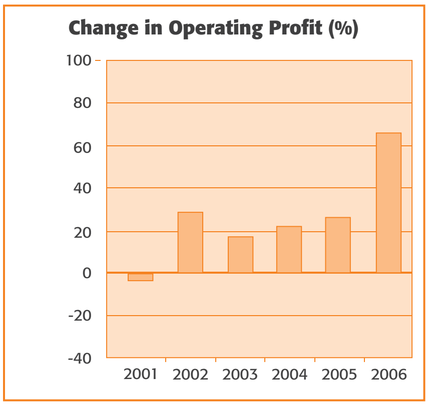

Equity (N$'000)
700 000
700 000
600 000
500 000
400 000
300 000
200 000
100 000
0
2001
2002
2003
2004
2005
2006

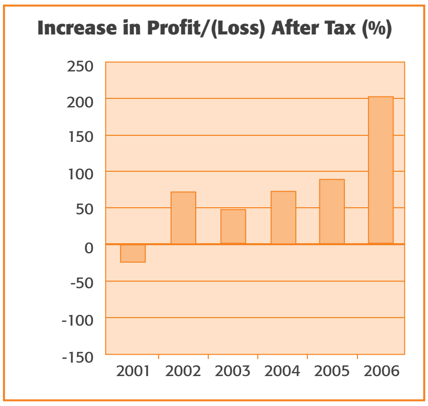

Capital Projects (N$'000)
300 000
250 000
200 000
150 000
100 000
50 000
0
2001 2002 2003 2004 2005 2006


Equity to Debt Ratio
7
6
5
4
3
2
1
0
2001 2002 2003 2004 2005 2006


Return on Fixed Assets (%)
16
14
12
10
8
6
4
2
0
2001 2002 2003 2004 2005 2006


Accumulative Capital Spent (N$'000)
2 000 000
1 800 000
1 600 000
1 400 000
1 200 000
1 000 000
800 000
600 000
400 000
200 000
0
2001 2002 2003 2004 2005 2006


Change in Operating Profit (%)
100
80
60
40
20
0
-20
-40
2001 2002 2003 2004 2005 2006


Increase in Profit/(Loss) After Tax (%)
250
200
150
100
50
0
-50
-100
-150
2001 2002 2003 2004 2005 2006

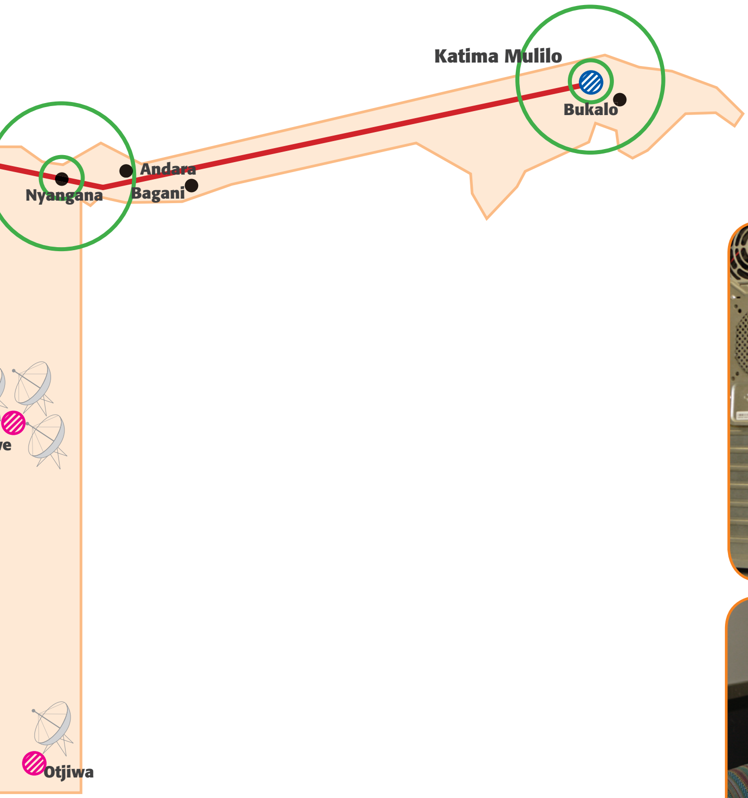
Network Development

Stats 2000 - 2006

	2000	2001	2002	2003	2004	2005	2006
Port Capacity (Network Switch Capacity)	168 676	173 347	175 016	177 876	185 564	195 023	208 178
Percentage Digital	100%	100%	100%	100%	100%	100%	100%
Direct Exchange Lines (DEL's) Analogue, ISDN and DID slots (Inc. public telephones)	109 526	117 059	121 233	127 380	136 197	138 880	136 042
Manual	650	339	180	172	153	117	121
TOTAL (DEL'S)	110 176	117 398	121 413	127 552	136 350	138 997	136 163
Waiting List	2 389	2 873	2 578	3 321	2 571	3 521	3 844
DEL Penetration	6.1%	6.4%	6.5%	6.6%	6.9%	6.9%	6.5%
Population	1 800 184	1 830 330	1 877 919	1 926 744	1 976 840	2 028 238	2 080 972
# of Public Phones	4 585	5 160	6 211	5 603	4 905	4 930	6 086
Public phones per 1 000	2.5	2.8	3.3	2.9	2.5	2.4	2.9
Number of Households (Projected)	336 900	346 455	355 463	364 705	374 187	383 916	393 898
Penetration per Households	32.7%	33.9%	34.2%	35.0%	36.4%	36.2%	34.6%

Sharing your world
Telecom Namibia's stand at the Windhoek Show.

Ruacana
Oshikango
Eenhana
Nkurenkuru
Rundu
Mashari
Rupara
Onesi
Elim
Opuwo
Uukwalundhi
Oshakati
Ondangwa
Onathinge
Oshivelo
Namutoni
Halali
Onkoshi
Horabe
Maroelaboom
Sesfontein
Okaukuejo
Abenab
Tsumeb
Biermanskool
Anker
Toshari
Uib
Signalberg
Otavi
Grootfontein
Tsumkwe
Kamanjab
Otjikondo
Kombat
Uchab
Okatjoruu
Outjo
Khorixas
Okaputa
Okamatapati
Sorris-Sorris
Otjiwarongo
Okakarara
Epupa
Kalkfeld
Waterberg Plateau Park
Okondjatu
Otjinene
Uis
Epako
Prosit
Protanto
Otjozondu
Summerdown
Omaruru
Hochfled
Mabella
Epukiro
Ombotozu
Plessisplaas
Eland
Ovitoto
Steinhausen
Wilhelmstal
Drimiopsis
Leoburn
Karibib
Okahandja
Omitara
Henties Bay
Usakos
Seeis
Buitepos
Otjimbingwe
Witvlei
Arandis
WINDHOEK
Airport
Gobabis
Babi-Babi
Omahere
Swakopmund
Tsaobis
Doreen
Many Hills
Spatzenfeld
Sandveld
Hochland
Nina
Walvis Bay
Dordabis
Friedental
Nouas
Rehoboth
Blumfeld
Leonardville
Klein Aub
Tsumispark
Aminuis
Rietoog
Hoachanas
Kalahariplaas
Solitaire
Schlip
Kalkrand
Oamseb
Aranos
Stampriet
Nudaus
Bralano
Mariental
Maltahöhe
Gochas
Gibeon
Roeland
Namgorab
Asab
Bulwana
Grenslyn
Brukaros
Mata-Mata
Kumakams
Koes
Helmeringhausen
Tses
Galbis
Bethanie
Keetmanshoop
Deurstamp
Guibis
Lüderitz
Aus
Goageb
Seeheim
Aroab
Feldschuhorn
Narubis
Kais
Klein Karas
Stinkdoring
Dawiab
Lorelei
Grünau
Uhr
Rosh Pinah
Karasburg
Ai-Ais
Hamab
Uhabis
Ariamsvlei
Warmbad
Oranjemund
Noordoewer



Telecom staff working hard to ensure the network is covering Namibia.

- **VSAT - 208 Terminals**
- **Ultraphonic Coverage - 230km²**
- **Primary/International Exchange**
- **Remote Line Units**
- **Small Digital Exchanges**
- **Rurtel**
- **Theoretical Exchange**
- **Allways on IP - Internet coverage**

227 Digital Destinations in
339 Points of Presence
6 023 km of Fiber routes

A case for change

Towards2010

The telecommunications environment in Namibia is changing at a fast pace and Telecom Namibia, as the largest player in the market, is taking a leadership role. The company is being transformed into a sustainable entity that is capable of delivering value to all the Telecom Namibia stakeholders including the shareholders, employees, customers and the public of Namibia.

Five years ago, Telecom Namibia embarked on a major process of change and transformation in order to align the company's operations and culture to become a more cost-effective and customer-focused business organisation.

In September 2005, Telecom Namibia launched its new customer-centric corporate identity. The launch signalled the first major overhaul in the company's 14-year history, and the new corporate identity is destined to strengthen our commitment towards achieving new levels of excellence in services offered to our valued customers and the public at large. In short, ours was not just a change of logo, but a significant shift at the core of the organisation and a new direction for Telecom Namibia as a whole.

In 2005, Telecom Namibia commenced with the restructuring and reorganisation of the company to suit its new business model. This realignment is to be achieved by leveraging our existing staff complement and building technical and commercial skills especially in IT and IP to meet the realities brought about by changing market requirements and industry forces such as Voice over Internet Protocol (VoIP) and convergence of technologies.

Strategy2010

On 20 September 2006 Telecom Namibia unveiled its new strategic plan aimed at repositioning the company for 2010. This plan, also known as Telecom Namibia's Strategic Blueprint, or Strategy 2010, is a new game-plan to support the company's evolution towards providing integrated communication services and deliver the benefits of IP-enabled applications to our customers. Our new focus will be on new generation products and services that will enhance our growth profile and deliver value for all our stakeholders. The intention is for Telecom Namibia "to be Namibia's most preferred high-performance ICT service provider of world-class standards."

A rapid convergence of voice and data, as well as fixed and wireless networks, is prompting communications operators around the world to rethink their business models. Convergence of once discreet applications and technologies is accelerating as manufacturers cram increasingly more technologies and functions into handsets, and as operators introduce new services such as triple and quad play.

Convergence is taking place within the international telecommunications industry at several levels:

- The blending of voice, video and data on enterprise and operator networks;
- Fixed-mobile convergence;
- The emergence of a range of applications and services from mobile devices such as cell phones and personal digital assistants (PDAs); and
- Overlap of the broadcasting and telecommunications industry in the form of triple play services.

The benefits of convergence are that customers can benefit from consolidating their information technology and communications needs from one common platform. This results in:

- Cost reduction and resource efficiencies;
- Flexibility that allows voice and data to be sent on one network;
- Mobility;
- Improved speed of data transfer;
- Increased collaboration; and
- Access to new converged products and services.

Telecom Namibia has taken cognisance of the need to reposition its business and adopt a new business model if it is to remain competitive. In particular, Telecom Namibia needs to expand its products and services, reduce cost, and deploy a new IP based network to address the changing needs of its customers in a new competitive landscape.

Telecom Namibia will deploy access technologies like CDMA, ADLS and WiMax for broadband access. This will be transported over an IP/MPLS backbone network, controlled by various soft switches, including SIP, IMS and various media gateways, in order for us to enhance the experience of our customers in the corporate, SME and residential segments of the market. These deployments will result in a state-of-the-art network catering for fixed and mobile high speed data, voice and data, world-class value added services, content provisioning, web services, managed services and new generation communication devices ranging from PCs to portable devices.

This repositioning requires a change from a traditional voice/fixed line/circuit switched environment to a data/IP/packet switched environment in which Telecom Namibia is to be a low cost producer, whilst servicing the full spectrum of customer needs. In other words, the grand strategy for Telecom Namibia is to become a state-of-the-art ICT service provider.

If circuit-switched networks ruled the first 50 years of the Information Age, the next generation will belong to intelligent IP networks and high-value applications.

That is why Telecom Namibia has embraced the case for change as a strategic imperative to move beyond being a telecommunications company on the road to becoming a communications integration company - a partner that brings together all the different communications services that customers want. Simpler for the customer to buy, manage and update as the technologies continue to evolve.

That is why we have committed ourselves to an IP based packet switching backbone network. All of our core traffic will be carried on a pervasive, IP-based national network backbone by the end of 2010. Over the same period, we plan to extend a full suite of IP-based products to the majority of our customer base. We estimate that the introduction of such new IT and IP based revenue streams will ultimately contribute about 45 per cent of turnover by 2010.

This is an aggressive timetable. But that is exactly what we need when the opportunity for our customers and us is so great, and when we are determined to become a state-of-the-art ICT service provider by 2010.

The successful achievement of this Strategy will require a major internal transformation in the organisation. Significant investments will be required in technical training, the acquisition of external skills, rightsizing, the phasing out of legacy technologies and the improvement of business processes and internal efficiencies. The establishment of new partnerships is also critical to the future success of Telecom Namibia.

About N$1 billion will be required in capital expenditure to migrate to a next generation network. This is in line with the company's current capital expenditure programme, but requires an accelerated investment schedule in the next two financial years.

Several price adjustments (read reductions) are planned towards 2010, not to optimise profits but to deliver affordable products and services in order to reduce the dependency on voice revenue and secure a sustainable competitive advantage.

Overall, Strategy 2010 is a noble intention on the part of Telecom Namibia. It is a great future for Telecom Namibia, but particularly for our customers, who will begin to discover a new IP world, driven by openness and simplicity. The Strategic Blueprint embodies our strategic intent and strategic game plan to move towards greater convergence and give our customers the opportunity to enhance and simplify their daily lives, both at home and at work.

Macro economic overview*

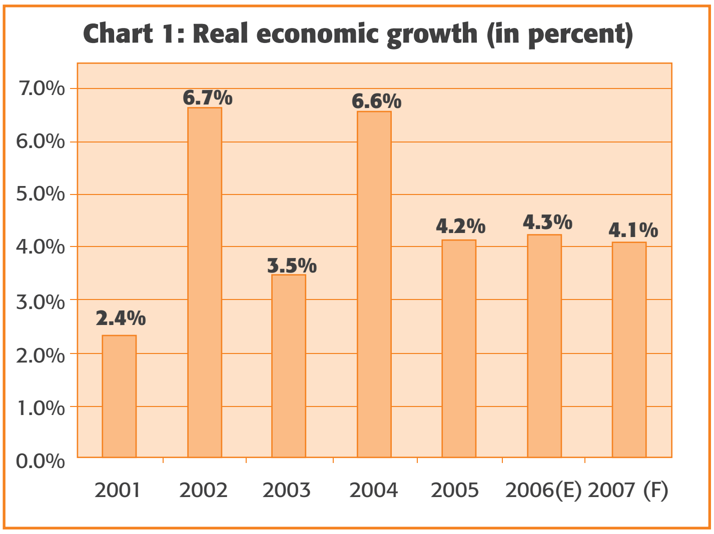
Economic Structure and Performance

Namibia is blessed with rich natural resources, a well-developed physical infrastructure and political stability. The country enjoys a relatively high GDP per capita of US$1 810 (1998), four times as high as the average for sub-Saharan Africa, which classifies Namibia as a middle-income country.

The Namibian economy relies heavily on the primary and the tertiary sectors. Agriculture, especially large-scale commercial livestock farming, fishing and mining are the backbone of the economy, while services account for a major share of GDP. The manufacturing sector is steadily growing and is mainly based on fish, food and meat processing activities.

Economic performance in Namibia is dictated largely by external factors like the weather, oceanic conditions and international commodity prices. In particular, world market prices for diamonds and uranium, of which Namibia is the fifth and sixth largest global producer by value, respectively, have a determining impact on the whole economy.

Average real economic growth amounted to 4.7 per cent over the last five years. The economy grew by 4.2 per cent in 2005 compared to 6.6 per cent in 2004 (see Chart 1). The deceleration in real GDP in 2005 was mainly caused by the decrease in diamond production of about 4.1 per cent in 2005 compared to an increase of about 39.0 per cent in 2004.



Source: Central Bureau of statistics, Bank of Namibia

The 2005 growth rate is expected to be sustained in the medium term. The economy is projected to grow by 4.3 per cent and 4.1 per cent in 2006 and 2007, respectively. This sustained growth would be on the back of an increase in diamond production, improvement in fishing sector output, and increase in uranium production (2007).

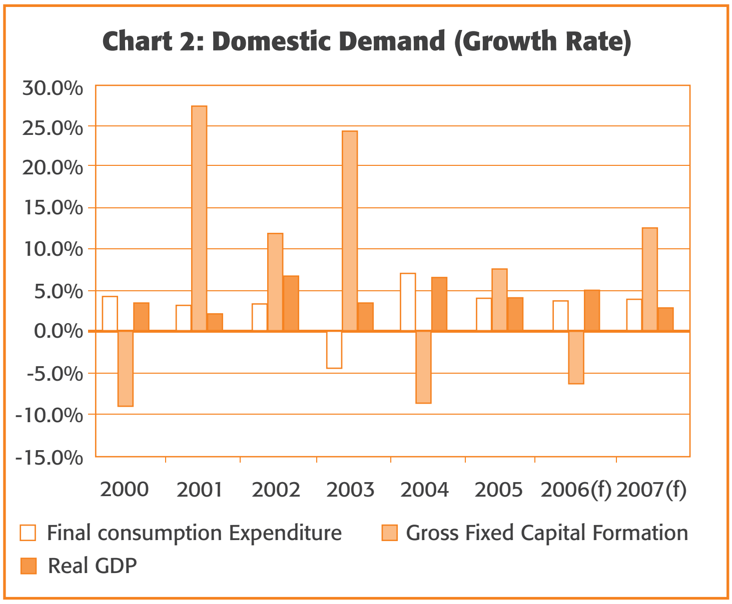
The current prevailing high prices of other mining products, such as uranium and zinc, could contribute positively to the economic growth in the short to medium term.

Consumption and Investment

Real final consumption expenditure grew by 7.0 per cent and 2.3 per cent in 2004 and 2005, respectively. Real final consumption expenditure is however expected to grow by 3.8 per cent and 3.9 per cent in 2006 and 2007, respectively. This real growth would be mainly due to increased private consumption expenditure as a result of salary increases which are assumed to grow with inflation.

The other subcomponent of final consumption expenditure, general government consumption, is also forecast to grow in real terms by 3.0 per cent on average over the next two years and this is assumed to follow the growth of producer of government services (growth in labour force and inflation, etc).

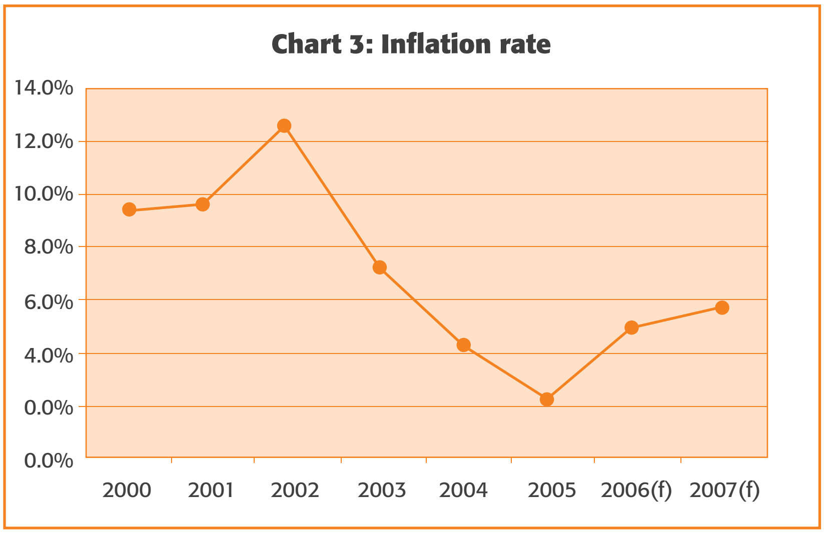
Real investment grew by 7.6 per cent in 2005 compared with the 8.6 per cent contraction in 2004. For 2006 and 2007, growth rates of -6.3 per cent and 12.5 per cent are projected. This growth in real investment reflects the historical cyclical pattern as evident in Chart 2.



Source: Central Bureau of statistics, Bank of Namibia

Inflation

The annual inflation rate is now based on the Namibian consumer price index (NCPI) which covers the whole of Namibia. NCPI replaced the Interim Consumer Price Index (ICPI) which used to cover only Windhoek. The average inflation rate, year-on-year, was 2.2 per cent in 2005, compared to 4.2 per cent in 2004 (see Chart 3).



Source: Central Bureau of statistics, Bank of Namibia

Inflation pressure that started during the second half of 2005 continued in 2006. Annual inflation rate increased from 3.6 per cent in January 2006 to 5.4 per cent in August 2006. This increase was mainly caused by the increases in food and transport prices which were influenced by hikes in the price of fuel witnessed during the same period.

A weakening exchange rate and still relatively high oil prices are expected to result in a slight increase in the inflation rate for 2006. The average annual Namibian inflation rate is therefore estimated to be around 5.0 per cent and 5.6 in 2006 and 2007, respectively.

Balance of payments

Real exports grew by 2.3 per cent in 2005, after a contraction of about 4.1 per cent in 2004. This growth in real exports in 2005 resulted mainly from increase in live animal exports and exports of manufacturing meat products as well as exports of refined zinc.

Real exports are projected to improve and to record 3.7 per cent and 3.6 per cent in 2006 and 2007, respectively. This improvement in exports will come mainly from an increase in diamond production. Favourable international prices on zinc, uranium and fish, coupled with the slightly weaker Namibian dollar could contribute positively to Namibia's exports.

As a per centage of GDP, exports are projected to decrease from 47.9 per cent in 2005 to 45.5 per cent and 46.0 per cent in 2006 and 2007, respectively.

In real terms, imports grew by 0.4 per cent and 1.5 per cent in 2004 and 2005, respectively. Real imports are projected to grow by 6.2 per cent and 6.7 per cent in 2006 and 2007, respectively, largely due to an improvement in domestic demand. As a per centage of GDP, it is expected to increase slightly from 53.1 per cent in 2005 to around 54.0 per cent in both 2006 and 2007.

As a result of these developments, the Namibian trade deficit is projected to worsen to around 8.6 per cent and 7.9 per cent of GDP in 2006 and 2007, respectively, from 5.2 per cent of GDP in 2005 (see Chart 4).

Source: Central Bureau of statistics, Bank of Namibia

The current account surplus as a per centage of GDP decreased to 7.1 per cent in 2005 from 9.5 per cent in 2004. It is, however, expected to increase to 7.7 per cent and 10.3 per cent in 2006 and 2007, respectively. This is mainly due to the increases in SACU revenue.

Conclusion

The economy continued to record favourable growth rates of above 3.0 per cent over the last four years.

The primary sector is very vulnerable to external factors such as climatic and rainfall conditions, as well as the external demand for primary commodities. The fishing sector is expected to continue to recover at the current low pace.

An area of concern for the Namibian economy is the upswing in the inflation rate since the beginning of 2006. Contributing factors are the rising food and fuel prices coupled with the depreciation of the local currency.

The Namibian economy, being vulnerable to external shocks, faces downside risks to the above forecasts. These include the world demand for Namibia's exports (diamonds, fish and meat products), high oil prices as well as the volatility of the local currency against major currencies.

*SOURCE: Bank of Namibia

Wireless Ultraphone system installation in a remote village in the Otjombinde Consituency.

Board of Directors

T Haimbili
Chairman

FJP Ndoroma
Managing Director

H Pupkewitz

J Iita

R Nakale

S Black

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

Telecommunication Sector Outlook

Technological advances and regulatory reforms keep pressure on wireline (fixed-line) operators and subject the sector to competition from various sides. The success of mobile telephony erodes fixed-line traffic and some previous fixed-line customers cut the cord to go mobile-only. VoIP reduces revenues as well, in particular from international traffic. At the same time new opportunities arise and fixed-line operators merge their fixed-line business with their mobile operations and increasingly develop new sources of revenue.

Historically networks were built to provide a certain type of service such as television, fixed-line voice, mobile voice or data services. The spread of Internet usage gave cables, previously only used for voice, another application in the 90s. Cable TV and mobile phone companies followed, offering data services via their networks. The arrival of broadband Internet access allowed companies to offer voice, data and video as combined services. Broadband Internet access allowed telecommunication and Cable TV companies to compete in each other's core business. This lead to what is termed multiple play. Triple play refers to providing three bundled services that used to be supplied through different networks such as fixed telephony- Internet and television/video. The combination of fixed and mobile telephony, broadband Internet access and multi-channel television is called quadruple play.

The average revenue by user (APRU) has increased in recent years in the USA despite increased competition, due to higher minute use and enhanced non-voice applications. This is an indication of the importance of multi-play for operator. Cheaper and better services as well as higher APRUs do not need to exclude each other.

The multi-play strategy can be observed in its beginnings in South Africa and Namibia. Telkom South Africa has offered fixed telephony and broadband Internet access for quite some time, although not bundled as one service. Telecom Namibia equally provides unbundled fixed-line telephony and Internet access (through iWay). It also started offering fixed-wireless services broadband Internet access via ADSL. Yet, operators in both countries still have a long way to go to implement multi-play.

Mobile operators will provide mobile telephony and 3G data access. Another option could be to offer some sort of fixed telephony as well through Fixed-Mobile-Convergence (FMC) solutions.

The prospects for Fixed-Mobile Convergence (FMC) have improved because of new standards that have been agreed upon by major industry players. These new standards allow cellphones to connect to fixed-line networks via Wi-Fi. It allows subscribers to use the same handset to make calls via a fixed-line and a mobile network. At home the handset becomes a cordless phone, communicating over unlicensed frequencies with an indoor access point connected to a fixed-line broadband Internet connection. When taken out, the handset acts as a normal handset using the cellular radio-frequency spectrum and protocols to communicate with the cellular operators' antennas.

Mobile operators might even aim at quadruple play offering streaming of video over their 3G networks in line with what is happening in South Africa. A mobile operator in South Africa has adopted a triple play approach by providing mobile telephony, 3G Internet access and television via mobile phone to its customers.

Consolidating mobile, fixed-line and television cable networks into one IP network with multiple access technologies will be the logical consequence. Providers could mix different access technologies in the same network and charge for the data traffic independent of the access technology used.

Convergence and bundling are two sides of the same coin. The convergence of multiple networks makes bundles of services cheaper to provide and adds convenience to the customer. It also lets existing players compete with each other more effectively which will bring down the cost for consumers.

Convergence of networks and services poses a challenge to regulators to adapt their licensing regimes. A major trend is towards technology-neutral and service-neutral licenses.

Technology-Neutral Licensing refers to licenses that allow the licensee to choose which technology and equipment he will use to provide the licensed service. An example would be to issue a mobile telephony licences to mobile operators which allows them to use any mobile technology they choose to deploy. In this case the license is service specific (mobile telephony) but technologically neutral.

Service-neutral licences on the other hand allow licence-holders to react to market dynamics and offer services that are most in demand or most cost-effective. It allows the licence-holder also to offer converged services. A service-neutral license for voice transmission would allow offering voice services independent of how the consumer accesses it (fixed, fixed-wireless or wireless).

The combination between technology-neutral and service-neutral licenses would allow a license-holder to implement triple or quadruple play by starting to migrate their networks to an all IP based network.

Namibia is at the start of a wide-ranging telecommunication sector reform. Competition will bring new and more affordable services to Namibians, increasingly include rural and low-income households into the information society. Figures from Botswana and South Africa indicate that there is still a huge untapped market potential for low cost telecommunication services in Namibia. All depends on the regulatory environment that lets all operators compete fairly. The main challenge to policy makers in 2007 will be to craft a telecommunications bill that will establish a fair and efficient regulatory environment.

President Hifikepunye Pohamba testing Telecom Namibia's SWITCH fixed wireless terminal phone at his home village of Okanghudi, Ohangwena region.

Chairman's Review

On behalf of the Board of Directors, I am pleased to present the 14th Annual Report of Telecom Namibia, which shows good results for the financial year ended September 30, 2006.

Despite competitive pressures, the financial year was completed with a good balance sheet which underscores the strength of the organisation. We continued to invest significantly in technologies and systems designed to transform our customers' experience.

Telecom Namibia's new vision is to be Namibia's most preferred, high-performance information communication technology (ICT) service provider of world-class standards.

In formulating this new vision to drive the organisation, cognisance was taken of industry trends and changes and challenges specific to Telecom Namibia. Key among these challenges is fixed-mobile convergence. As a strategic imperative, we are focused on expansion and modernisation of our infrastructure, managing risk and extending and renewing our skills base.

Our vision is to transform Telecom Namibia into the most competitive State-owned enterprise in Namibia, that serves the Namibian customers through the provision of modern communication infrastructure that will quickly help turn Namibia into a prosperous Information and Knowledge Society in the fully competitive, globalising environment.

The Board is confident that Telecom Namibia has the strategies, structures and management teams to achieve its vision.

Growth through business transformation

We continued to implement our strategy of growth through business transformation. The Board has given its backing to the new Strategic Blueprint that aims to transform Telecom Namibia and help us confirm our status as a leading player in the telecommunications sector of Namibia.

Our Strategic Blueprint, which is an ambitious four year development project (2007 - 2010), will not only place Telecom Namibia in the category of technologically pioneering organisations but will provide the economy of Namibia with the necessary infrastructure to enable it to achieve a high rate of growth to achieve the Millennium Development Goals.

Regulation

We believe that a fair, efficient and flexible regulatory regime is vital for our industry, for ensuring that we can meet customers' growing needs and for encouraging investment.

We look forward to the enactment by Parliament of the new Communication Bill during 2007 that is set to transform the regulatory landscape in Namibia. We hope that the impact of this new legislation will be to focus regulation where it remains necessary at the same time as stimulating de-regulation wherever possible.

Board and Board Committees

Telecom Namibia has a Board that ensures that the Managing Director and management perform in fulfilling the duties so prescribed by its Establishment Act as the incumbent telecommunications service provider, as well as striving to operate profitably and declare dividends to its shareholder, the Government of Namibia.

To ensure that accountability, structural and governance matters were strengthened in the company, the Board established an Audit Committee with clear responsibilities, role, purpose and authority. An internal Tender Committee is also in place to ensure that due process is followed in the assessment and allocation of contracts for goods and services to be provided by external parties.

We have an established Risk Management Committee to deal with issues of risk stewardship within the company. Strategic risk management remains a board-level concern and has become an essential ingredient in strategic planning to make sure that it contributes to the overall imperative of increasing, as well as protecting, shareholder value.

The Board Audit Committee had five scheduled meetings with an extremely loaded agenda during this financial year, considering and directing aspects of the business for a wide number of activities. To mention a few important examples, the Committee initiated the revision of a Performance Agreement for Telecom Namibia and the Government - this proactive approach will enable the company to report on measurements which are more meaningful within the context of the modern telecommunications and ICT environment.

Another milestone project was the initiation of a company-wide Fixed Asset Evaluation. The report proved very valuable in providing direction for future asset management, and also the development of new depreciation rates and policies.

The Committee has also taken a stern stance to actively monitor fraud investigations and action taken against individuals involved, also actions to combat future fraudulent activities.

Other initiatives of the Audit Committee include the following:
- Transparent outsourcing of the management of Post Retirement Benefits;
- Evaluation of the efficiency of the Internal Audit Division and has made certain recommendations around that;
- Actively monitoring the debt write-offs; and
- Commissioning the development of the following policies: Investment Policy; Telecom Namibia Code of Conduct; Corporate Social Investment;

The Board Human Resources/Remuneration Committee had three meetings during the past financial year, when matters relating to human resources and remuneration were discussed. The Committee was instrumental in directing and driving the Restructuring of Telecom Namibia, concurrently with the preparations and planning of Phase 2 of the Optimal Employment Level Exercise.

The Committee also made a recommendation to the Board on the Remuneration Policy, Rural and Remote Area Attraction and Retention Incentive Scheme, Sales Commission Policy and an employee rebate policy in relation to Telecom Namibia products. The Committee also mandated the review of the Bonus Pool Policy.

The Board Risk Management Committee convened three times in the past financial year, discussing the various risks identified to be managed to limit the company's exposure. A Board Risk Register was developed, which systemised the monitoring of the identified risks and the impact thereof on the business.

The Committee is reasonably satisfied that calculated measures have been taken to take care of all identified risks.

Looking forward

To sum up, Telecom Namibia has adopted an agile and forward-looking strategic vision for the future, which will be sustained largely by innovation, in our quest to ensure that the company not only fulfils its mandate to the Government and people of Namibia, but also delivers totally integrated telecommunications and IT solutions for our customers.

The Board expects that the strategic initiatives taken in 2006, to reposition the company for change, will make a difference in 2007 and beyond. In other words, our company is well set for continued success in the years ahead. The board believes that the strength of the Telecom Namibia brand and its record of innovation, product quality and support, in the context of a rapidly-growing industry, offer excellent prospects for continued product diversification and growth and for the discovery of new opportunities.

With a seasoned and experienced management team in place, the Board has every reason to believe that the growth of the company's revenues and profitability will continue in the foreseeable future.

I would like to take the opportunity to thank all those who have contributed to our success during the past year. My word of thanks goes to Management who skilfully led us through the minefield of obstacles and challenges which characterise the ever-changing vagaries of our industry today. Secondly, I wish to acknowledge the employees of the company for their diligent efforts this past year.

Suppliers and customers have provided important encouragement and we are grateful for their support.

Lastly, my colleagues on the Board of Directors have been a source of constant guidance and wisdom. They have dedicated themselves fully to the task of total repositioning of Telecom Namibia for a future beyond 2010.

Titus Haimbili
CHAIRMAN

Managing Director's Report

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

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

Strategic Roadmap

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

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

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

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

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

Financial Performance

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

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

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

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

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

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

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

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

Regional dimension

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

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

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

Accountability - challenges and opportunities

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

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

Adding value that benefits our customers

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

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

Being innovative and looking for better ways of working

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

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

Providing customer service excellence

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

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

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

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

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

Our vision for the future

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

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

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

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

Thanks

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

FJP Ndoroma
MANAGING DIRECTOR

Social Responsibility Report

For Telecom Namibia, the concept of social responsibility is not limited to a concern with welfare schemes, charitable giving or the occasional support for Health, Education, Sports, and the Arts. Rather, the company perceives and positions itself as an integral part of society, which must be socially responsible at all times towards our customers, our employees, the environment and society. This is both because it's the right thing to do and, if applied correctly, good business.

Our commitment to corporate social responsibility (CSR) provides a guiding framework for all our management responsibilities and we focus particularly on striving for industry best practice standards in environment, health & safety, and in social performance. This must, however, be understood in the context of the company's priority obligation to be a successful business enterprise, first choice employer and communications customers' first choice, thus making itself stronger and able to fulfill its obligations to society.

Community Support

Telecom Namibia's policy is not just to deliver profits but also to make a positive difference to the well-being of local communities in which it operates and to invest in the future of all Namibians.

In 2005/06, we spent more than N$4.2 million on community sponsorship programmes, spread over the following categories:

Education

SchoolNet Namibia was the biggest beneficiary of CSR aid with Telecom Namibia contributing N$2 million to its operations in 2006.

Together with SchoolNet Namibia, Telecom Namibia is a founder member of Xnet Development Alliance Trust, which aims to expedite Internet access and its use to the education, health and development sectors of Namibia.

On 13 September 2006, Telecom Namibia signed the Partnership Declaration of Tech/na! - a ICTs in education initiative. Tech/na! is a national initiative to coordinate the appropriate development, efficient delivery, and quality use of information communication technologies to ensure ICT integration for excellence and equity in education.

Telecom MD Frans Ndoroma with Cllr. Matty Ndjoze of the Otjombinde Constituency.

Telecom MD Frans Ndoroma with Cllr. Brave Tjizere of the Epukiro Constituency.

Education-related initiatives sponsored during the year included the JP Karuaihe Trust Fund, Omusati Education Fund; Round Table Conference in Support of Education and Training Sector Improvement Programme (ETSIP) April 2006, the Colloquium on Innovation for a Knowledged Economy organised by the Polytechnic of Namibia, and the Head Teachers' Association (WIPSHA). We also sponsored the design of a scientific model of an archetypal Telecom village for the Directorate of Science and Technology, Ministry of Education.

Schools that benefited from sponsorships are Bethold Himumuine Primary School (Katutura), Primary School Danie Joubertt (Mariental), Golden Maggy Primary School (Oshakati), HTS Windhoek; Orban Primary School (Windhoek); Samuel Veldskoen Primary School (Mariental) and Windhoek Primary School.

Caring for the physically challenged members of society.

Health

During the year, Telecom Namibia contributed financially to Thirene Basson for leukemia treatment, Al-Richo Bok for heart operation, Madri Shanjenka for a liver transplant, Cliffton Lamberth for lung decortications, and Felesiana Nauwake suffering from Noma, a disease that destroys tissues on the faces of children.

Sports

Boxing continued to receive financial assistance, totalling about N$1.3 million since 2004. In 2006, our financial contribution to boxing amounted to about N$750 000.

A number of sports associations and clubs were financially helped to participate in international events, especially hockey, karate, softball, tennis, golf and wrestling.

The other is the Windhoek-based Excelsior Gymnastics Club which received another sponsorship of about N$37 000 in 2006. Another beneficiary was the Rossmund Junior Golf Development which promotes the game of golf for Namibia's youth, especially those previously disadvantaged.

As part of our commercial sponsorship, Telecom Namibia partnered with One Africa Television to bring FIFA World Cup 2006 to the TV sets of Namibians. The sponsorship amount was N$500 000.

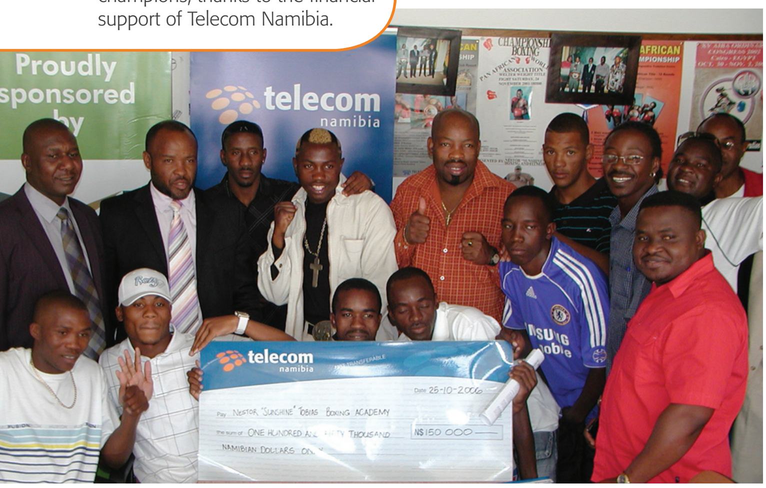
Community groups and Events

Groups and events funded through our CSR programme were the Christiana Swart-Opperman Aids Orphan Foundation Trust, Nampharm Foundation Trust; Ehafo Trust; Huis Maerua; NANASO; Lions Club International's Country Festival (Grootfontein); Michelle McLean Children Trust (Operation Snowball); Mount Sinai Centre (Katutura); Namibia Child Care Assistance Institute; Organisation for the Empowerment of Widows, Widowers and Orphans of AIDS Victims in Namibia (OEWONA); Walvis Bay Multi-Purpose Centre Trust and Kalkfeld Community Sport event.

The arts

Telecom Namibia is a Corporate Member of the National Theatre of Namibia, thus allowing us to take part in the development and sustainability of the performing arts in Namibia as part of our social responsibility. We also sponsored the Namibia Music Awards 2006.

Boxing has produced world champions, thanks to the financial support of Telecom Namibia.



Philanthropy

St James Soup Kitchens (Mariental), Okaundja Old Age Home and Central Methodist Pre-Primary School.

Environment

As in the past, Telecom Namibia funded the "Conservation and the Environment in Namibia", a magazine of Venture Publications that highlights the challenges, issues and inspiring success stories that are critical to conserving Namibia's vast and varied eco-systems.

Other major sponsorships went to:

- Women empowerment (N$120 000)
  Telecom Namibia has been a main sponsor of the Namibian Businesswomen Project since 2003. We are committed to advancing the interest of women in business and public life through our partnership with the Project.
- Students Science Fair (N$55 000)
  As part of our commitment to help foster a new generation of students of science, Telecom Namibia financially supported the hosting of the first African Regional Science Fair which was held in Windhoek from August 28 to September 1, 2006. The multinational event brought young men and women from across the African continent to showcase their science projects, and to serve as a vehicle to help young people see the value of education and careers in science, technology, and engineering.
- Communal Farmers Consortium (N$60 000)
  As part of a consortium, we assist the communal farmers, through the Namibia National Farmers Union (NNFU).
- Miss Namibia 2006 (N$40 000)
  This competition selects the most beautiful young woman who is then afforded a unique opportunity to be a role model for the Namibian youth; to make a real difference in the lives of many others; to use the goodwill of her people in promoting a deserving cause or alleviate the plight of the less privileged and serve as a goodwill ambassador of Namibia and its people.
- MISA Awards 2006 (N$31 500)
  The only programme of its kind in the country honouring journalists and media practitioners for their achievements. In addition, a Namibian citizen is also honoured with the “Freedom of Expression Award”.
- Ounongo Technology Centre (N$10 000)
  An NGO to help provide access to ICT for the residents of Omaheke Region.
- TOV HIV/AIDS Orphans and Vulnerable Children Organisation, which operates as TOV Multi-Purpose Centre in Tsumeb, for the setting up of an Internet lab at a cost of N$35 400.
- Mariental Disaster Relief Fund (N$20 000)
  Following the flooding of the town of Mariental, Telecom Namibia positively responded to calls to help the flood victims.
- Namibia Police (N$25 000)
  Was contributed as a token of appreciation for their good work on the occasion of Police Day celebrations.
- Otjinene Farmer’s Association (N$20 000)
  In support of the Annual Otjinene Agricultural Exhibition for the past four years as our contribution towards self-sustainability and poverty alleviation.

We believe our commitment to these communities is important to their well-being and will help them and our business to flourish in the long term. Our objective is to support local communities and society through projects that deliver sustainable improvements in peoples’ lives by building positive relationships and fostering learning. We are particularly interested in supporting projects that use ICT to address social causes. We aim to provide our support by building partnerships with charitable and community organisations at a local and national level.

Contribution to economic development

Shareholder relations and value

Telecom Namibia is a wholly owned government business enterprise. As such, our relationship with our shareholder is governed by the requirements of the Post and Telecommunication Act, Companies Act and the requirements of the Performance Agreement. Shareholder responsibilities are exercised by the Minister for Works, Transport and Communication.

2005/06 highlights

- We paid N$80,2 million in rates and taxes.
- We provided direct employment for 1463 staff, and indirect employment for the hundreds of staff employed by our contractors.

Recreation and leisure are vital for Telecom Namibia employees.

- We paid our shareholders a dividend of N$16,9 million.
- We contributed N$761 million to the Namibian economy by paying for goods and services (N$635), and capital assets and business acquisitions (N$126 million).
- We were the main sponsors of the Annual General Meeting and gala dinner hosted by the Namibia Chamber of Commerce and Industry (NCCI) in June 2006, as well as the 14th Annual Convention of Federation of Namibian Tourism Association (FENATA), the same month.

An important programme that demonstrates Telecom Namibia's commitment to upcoming businesses is our affirmative purchasing and procurement initiatives. This initiative is designed to ensure that small, disadvantaged businesses, women-owned businesses and other under-represented businesses have an opportunity to participate as suppliers to Telecom Namibia, as resellers for Telecom Namibia products and services, and as Telecom Namibia partners in customer engagements that offer third party participation.

Support for kids needing emergency medical care.

Our people

The employees of Telecom Namibia are the backbone and this resource is very efficiently utilised. The company nurtures its employees through greater knowledge, opportunity, responsibility, accountability, reward, innovation, and discipline. The company provides ample opportunities to the employees to grow and to attain high standards of efficiency and productivity. Telecom Namibia is dexterous in motivating its employees to stretch out the hand of effort and hard work towards attainment of its objectives. All the policies concerning the employees are made keeping in view the fact that manpower is the most precious resource for the company.

Employee health and wellbeing

Telecom Namibia is committed to helping improve its employees' general health and wellbeing and to enhancing their work performance and productivity.

Telecom Namibia has an Employee Assistance Programme (EAP) in place which is geared towards improving the quality of life of its employees socially, psychologically and through providing a caring environment. A total number of 70 employees were counseled on a number of issues.

As part of its EAP, Telecom Namibia runs Nova Vita, a Drug and Rehabilitation Centre. During the year the intake of patients at Nova Vita increased from 63 patients to 79, of which only three were Telecom Namibia employees.

With a workforce totaling 1,300, the company in 2003 started a workplace-based anti-retroviral treatment programme. The programme is managed externally through the Medical Aid Fund and provides medication to employees diagnosed with HIV/AIDS.

A Voluntary Counselling and Testing (VCT) Project was approved for implementation in the 2006/07 financial year. The project entails a comprehensive employee wellness test programme as well as a 24 hour Help Line for employees in need of assistance.

At least 42 trained peer educators run education sessions and counsel employees, as well as community outreach activities where they provide information to the larger community through direct one-to-one contact and through flyers. About 40 000 condoms are distributed each year.

From the onset, company management took part in the design of the programme and constantly does evaluation to ensure that it continues to meet employees' needs, thereby contributing greatly to the success of the HIV/AIDS workplace programme.

Telecom Namibia's vision is to be recognised as an employer choice, leading the fight against HIV/AIDS in Namibia by applying the best practice for the wellbeing of its employees, customers and the nation as a whole.

The company operates a clinic on the premises. A total number of 815 employees from the NPTH Group, including 475 from Telecom Namibia, visited the clinic during the year. Having a clinic on the premises has saved the company man-hours in productivity which could have been lost as a result of employees having to travel to outside general practitioners for treatment.

Occupational health and safety

Telecom Namibia strives to ensure and maintain a safe working environment for all employees. The SHE Policy reaffirms the company's commitment to employee safety and health and establishes a uniform system and process to guide individuals, departments, and Business Units to meet their SHE responsibilities.

The company believes it is the right of every employee to work in a conducive environment and that the general public, as well as employees, must be protected from potential health hazards associated with the operations of the company.

The number of injuries on duty increased from three in 2005 to 10 last year. However, vehicle accidents decreased significantly by 48 per cent. This is as a result of an aggressive defensive driving training programme which was implemented and was made compulsory for all pool vehicle drivers.

During the period under review the following key heath and safety related interventions took place:

- Risk Assessment Training (Managers and Supervisors) and Safety Representative training were conducted to help the managers and Supervisors to ensure that injuries/accidents on duty are kept to the absolute minimum.
- Defensive Driving Training was conducted throughout the country and 129 Pool Drivers were trained. This resulted in a noticeable decline in vehicle accidents in the company.
- A total of 13 employees were trained in First Aid. It is anticipated that by March 2007 all workplaces should be equipped with proper First Aid Equipment.
- The development of Telecom Namibia's own Safety Standards was completed through a consultative process with the employees. These standards will be implemented during the new financial year.

A comprehensive risk assessment will be done company-wide in order to help formulate appropriate interventions for mitigating occupational health and safety risks.

Employee engagement

Telecom Namibia's national Staff Climate Survey, conducted in 2005/06, provided a number of insights into staff views on workplace issues, including:

- positive levels of employee engagement and pride in working for Telecom Namibia and its corporate goals and objectives.
- a strong perception that Telecom Namibia is highly regarded by its customers and the general public and is socially responsible.
- staff commitment to fostering a work culture that encourages productive and effective customer relationships.

As a result of the survey, strategies have been developed at corporate and divisional levels to address issues such as improved performance management (incorporating better communication, teamwork and reward and recognition). Line managers and staff at each work centre have developed their own action plans and activities to enhance communication, collaboration and co-operation, performance management and job satisfaction.

Learning and development

We continue to invest in technical training and personal development programmes and it is our aim to create a management culture that develops people and encourages them to reach their full potential.

During this year an equivalent of 1 246 employees attended training events locally, regionally and internationally at a cost of approximately N$10,8 million, which is equivalent to 2.83 per cent of the company's annual payroll.

The following training and development programmes were implemented to build the much-needed capacity:

Telecom Electrician Upgrading Programme
This programme is run in partnership with the Polytechnic of Namibia and offers special part-time engineering classes for a full week once a month to Telecom Namibia employees to enable them to be upgraded from Artisan (i.e. Telecom Electricians) to Technician status once they have satisfied the requirements of the Polytechnic.

A total of 20 Telecom Electricians were enrolled for the National Diploma course at the Polytechnic of Namibia. The employees are attending classes on a block release mode. This agreement will, for the next few years, ensure that the majority of employees are provided with an opportunity to be upgraded from Artisan level to technician status.

IP/IT Skills Development Programme
This programme aims at building IP /IT skills to help the company embrace the challenges of convergence. The programme is run in partnership with Torque IT, a South African based IT training institution whereby specialist trainers from Torque IT are utilised to train Telecom Namibia employees in the IP/IT fields.

Bursary recipients with Telecom Namibia Managing Director, Mr FJP Ndoroma.

Graduate Development Programme
Telecom Namibia also introduced an aggressive two to three years Graduate Development Programme whereby the company targeted and recruited students who have either completed their studies or are in the final year at a University or Technikon in the fields of IT, IP and Electronic Engineering. The objective of the programme is to provide these students with specialised training in the various telecommunications and IT fields in order to alleviate skills shortage as well as to ultimately flood the market with these skills. Accordingly, six graduates were recruited as IP Technicians-in-Training, 10 candidates were recruited as Engineering Technicians-in-Training, while five candidates were recruited as Engineers-in-Training. The company will continue to take on graduates on an annual basis to help alleviate the national skills shortage in the telecommunications field.

Management Development Programme
The Company also entered into a strategic partnership with the Graduate School of Business of the University of Stellenbosch to develop and upgrade the supervisory and managerial skills of our supervisory and managerial employees. To this effect 20 senior managers attended the Senior Management Development Programme, 23 Middle managers attended the Management Development Programme, while 40 supervisors attended the Junior Supervisory Development Programme. These programmes will be run on an annual basis and while they are targeted at all managerial staff, the company resolved to extend these to persons from the designated groups with potential to develop into managerial positions.

Study Financial Assistance for Employees
Seventy-seven employees are currently receiving financial assistance from the company to study on a part-time basis towards tertiary qualifications. To date more than 225 employees have benefited from this programme. In addition a total of seven employees are currently studying on a full-time basis in the fields of Engineering.

External Bursaries
During the period under review, four school leavers were awarded bursaries to study at Institutions of Higher Learning, bringing the total number of students studying with Telecom Namibia bursaries to 15. The bursaries are offered in the fields of Engineering, Business Computing and Information Technology. All new bursary recipients are from the designated groups, of which 50 per cent are women.

Fast Tracking Apprenticeship Development Programme
The company developed, adopted and implemented a fast tracking training programme for technical staff, which drew participants/employees from designated groups. During the period under review, a total number of 37 employees graduated from this programme and were appointed as Telecom Officers and Telecom Electricians respectively. At least 92 per cent of all the participants are from the designated groups.

We are proud to state that skills development of our employees will continue to be a priority for Telecom Namibia, because it is our belief that we can only achieve our objectives with a skilled and motivated work force.

Recognising team performance

Employees were recognised for their contributions to improved customer service and business performance through our annual Telecom Namibia Awards. A total number of 50 employees were recognised at last year's gala function.

Environment

The environment in which we operate is our primary concern. Telecom Namibia believes excellence in environmental management is important for our long-term success. Telecom Namibia strives for the best in technology and operations efficiency. We strive to put in place processes to reduce risk and minimise our impact on the environment.

Being a telecommunications operator, Telecom Namibia does not emits any air, water or noise pollutants yet the company is committed to make the environment healthy and pollution free.

As a company, we strive to achieve full compliance with all relevant environmental legal requirements, especially when we extend our networks through ecologically fragile areas of the country. Telecom Namibia adopts the strictest national legislation as its minimum environmental standard. We also conduct regular internal and independent environmental audits to support our risk-based environmental management programme.

Our procurement processes take account of environmental considerations. Special attention is paid to: energy consumption, waste management, process and product requirements, and the use of hazardous materials.

Telecom Namibia also strives to harness the environmental benefits of our products and services. Our video-conferencing service is a good example of how we attempt to minimise pollution from unnecessary travel while allowing companies to save time in order to achieve greater productivity.

Operational Overview

Business Development

Telecom Namibia reviewed its vision to align with a new era of transforming network infrastructure to deliver enhanced services and capabilities. Our new vision is To be Namibia's most preferred, high performance information communication technology (ICT) service provider of world-class standards. This new vision is forward-looking and is intended to focus Telecom Namibia for the coming "era of Internet Protocol (IP)," which will see the convergence of voice, data and video, as well as the implementation of always-on, ubiquitous, IP-based wireless communications systems.

Telecom Namibia's extended ICT value chain requires the introduction of a broad range of products and services, as well as the extension of Telecom Namibia's network capabilities. A transition to an IP based network (IP/MPLS) will be done to provide an ICT product and service portfolio to customers via access technologies such as Asymmetrical Digital Subscriber Line (ADSL), Code Division Multiple Access (CDMA), Worldwide Interoperability for Microwave Access (Wi-MAX) and Metro Ethernet. These projects will support the transition towards a new Next Generation Network (NGN).

Some of these access technologies were implemented in a pre-launch phase during the last financial year:

- The Multi Protocol Label Switching (MPLS) technology will enable the deployment of a new IP based network that will address the changing needs of our customers in a competitive landscape and ensure that new IT and IP based revenue streams can be capitalised on.
- The deployment of ADSL technology has made tremendous progress and customers eagerly awaiting the arrival of broadband will soon enjoy fast Internet connectivity and a range of new services.

The introduction of mobile services, based on CDMA technology, is one of the absolute highlights in the past year, taking into account the inevitable spectre of fixed-mobile convergence. The SWITCH mobile services will offer an attractive alternative for typical GSM services by offering a generous city and community coverage at highly affordable prices.

Voice Services

Telecom Namibia voice business continues to record slow and stable growth over the past few years. This business is generally being affected by competition from mobile voice services and other low cost services offered by Voice of IP and call-back service operators.

A tower at the town of Oshakati.

Local call revenue declined by three per cent during 2006 compared to the previous year, contributing 23 per cent to total call revenue. A marginal increase in national call revenue was recorded in 2006 compared to the previous year. Fixed to cell call revenue declined by 2 per cent in 2006 compared to the previous year, contributing about 37 per cent to call revenue. The unfavourable growth rate in domestic call revenue is mainly attributed to a general decline in domestic call volumes of minutes.

International outgoing traffic increased by four per cent from 62.2 million minutes in 2005 to 64.9 million minutes in 2006. The Compound Annual Growth Rate (CAGR) for international outgoing traffic is estimated to be two per cent during the period 2003 to 2006 using 2003 as the base year. Outgoing traffic to South Africa accounted for 80 per cent of total international outgoing traffic with a CAGR of 1.4 per cent. Despite the positive growth in international outgoing traffic, international call revenue continue to decline due to continuous downward review of international tariffs over the years.

Total traffic volumes for 2006 decreased by 1.1 per cent. Revenue from ISDN BRA increased by 16 per cent in 2006 compared to the previous year. Direct Exchange Lines (DELs) declined by two per cent from 138 997 in 2005 to 136 163 in 2006 with a low CAGR of two per cent from 2003 to 2006, mainly due to disconnections. Telecom Namibia continued to offer other value added services such as Telemail, wake-up call, reminder service, etc as well as competition lines to grow the voice business.

Given competitive pressures from mobile voice telephony, the future calls for introducing more fixed-mobile solutions, introducing new products to the market and building new revenue streams. Telecom launched SWITCH prepaid services which will offer an attractive alternative for mobile telephony and data services at affordable prices. Post paid voice and data services are due for launch during 2007.

Quality Of Service (Qos) Improvement

The QoS is core to our business. We continued to focus on the improvement of QoS indicators as a key strategic priority. The areas that enjoyed attention are service delivery, service assurance and preventative maintenance.

Telecom Namibia invested extensively in the training of the Customer Interfacing Staff this year, providing on average 22.8 days training per individual.

Customer Care Centre (CCC)

The Telecom Namibia Customer Care Centre is currently undergoing a transformation process in order to meet the demands of the future.

A number of indicators have shown improvement as a result:

- Abandoned call rate was reduced from 53 per cent to five per cent.
- Quality of calls improved from 55 per cent to 80 per cent.
- Service levels improved from 33 per cent to 74 per cent.

A customer survey conducted through the retail channel provides proof of these improvements. For example, the number of customer complaints declined by 42 per cent.

A typical Telecom Namibia public phone booth.

Service Delivery and Assurance

In the area of service delivery and assurance, we recorded improvements in the level of QoS and the average efficiency performance statistics for the whole of Namibia is as follows:

- Total Fault Rate decreased from 351 faults per 1000 lines to 348.
- Total Fault Repair Time improved from 2.82 days to 2.77.
- Total Installation Response Time showed an 8.9 per cent improvement from 10.89 days to 9.92 days.
- The per centage uptime of Public Payphones is 92 per cent compared to 85 per cent the previous year.

Customer satisfaction

Telecom Namibia conducted a survey on customer satisfaction in July 2006. 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 78 per cent, a one-point improvement from the previous year. The customer satisfaction rate for the Teleshops is higher at 93.1 per cent.

Some Initiatives to Improve Services

- Aggressive rejuvenation of copper network especially in the urban areas to reduce fault rates.
- Deployment of coin phones in February 2007 as well as new FlexiPhones to increase the number of prepaid phones all over the country.
- Deployment of payphones in informal settlements via Dial@way IP VSAT.
- Deployment of vending machines to make prepaid cards available 24 hours in selected areas.
- Future franchising business for prepaid to increase channel distributions throughout the country.
- Roll-out of the CDMA network in five major towns by the end of 2006; namely Oshakati, Tsumeb, Windhoek, Walvis Bay and Keetmanshoop with at least 34 base stations deployed.
- Further roll-out of CDMA to areas to replace obsolete technologies.

Multimedia Services

Telecom Namibia offers a wide range of multimedia products and services in the form of customer premises equipment (CPE), Internet access, Internet protocol (IP) applications, high speed data and value added products and services.

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

Our product range includes the following:

- A wide variety of customer premises equipment (CPE);
- Value added services (VAS);
- Data and Internet services (IP);
- Virtual private networks (VPN);
- LAN, WAN, Intranets and Extranets;
- Structured cabling;
- Leased cost routing;
- Co-location services;
- Disaster recover site facilities;
- Web hosting;
- Web development;
- E-mail services.

Access to the various services was achieved with a range of access network technologies:

- Radio based services (Broadband Wireless, Multi Gain Wireless services, Wireless LAN services, Wi-Fi Hotspots);
- Copper based (analogue, HDSL, ISDN, Leased lines);
- Fibre optic networks;
- Satellite (VSAT and Dial@way).

Like other fixed line telecommunications operators worldwide, Telecom Namibia is also confronted with the challenges associated with the rapid convergence of voice and data, as well as wireline (fixed) and wireless networks. The convergence of VoIP, mobile, content and data with voice creates a demand for new products and services. The convergence of the telecommunications and IT industries (into Information Communication and Technology - ICT) poses significant challenges for telecommunications operators. The support for IP related technologies is now a strategic element in the design, development and use of Telecom Namibia's network.

iWay

iWay is still Namibia's leading Internet Service Provider (ISP) and has not only shown positive growth in their customer base but also tremendous growth in revenue. A new product, i-Stay On, which became available as an always-on IP service to customers, is performing well.

ISP customers have an increasing variety of choices from a wide range of operators. However, the demand from customers for new products and services is rising.

Namibia's ISP market will become an increasingly fierce battleground for market share. Due to convergence and deregulation, the competitive playing field in Namibia is rapidly changing. Existing players will expand their services (up and down the value chain) and new players will enter the market soon.

Infinitum & Telematics (IP & Data)

Infinitum, specialising in Tier-1 access is Namibia's largest provider of an IP backbone and International bandwidth (Worldwide Web connectivity). During the year under review, Telecom Namibia continued to make huge capital investments to expand both the national and international IP connectivity. Telecom Namibia partnered with global Internet carriers such as SAIX and Intelsat for the provisioning of Internet access to Namibia.

Services to Namibian Mobile Operators

Telecom Namibia has a very substantial fibre optic backbone and distribution network that we make available to MTC and Cell One. We provide interconnect services in Olympia, Prosperita, Windhoek West and Oshakati for voice and SMS services. At the end of September 2006 we had supplied 251 links for MTC. These varied from n x 64kbps to more than 72 x 2 Mbps links between the exchanges. The total linked bandwidth is close to 750 Mbps and growing rapidly with the MTC upgrade to 3G services. The links are provided over a variety of technologies - over fibre for major routes, microwave or broadband wireless for distribution and VSAT or copper for the last mile.

Due to the very remote location of some of these installations the operation and maintenance of these services require a major effort, as all are critical to the successful mobile service operations.

Due to the large mobile customer base many interconnect calls are made between the fixed line business customers of Telecom Namibia and the larger number of MTC customers. This interconnect is a major traffic driver and is growing rapidly from Telecom Namibia's side. Least cost routing from the Telecom Namibia network is also still growing due to the cost differential offered by MTC.

Customer Premises Equipment

Telecom Namibia, in conjunction with Siemens, provides a wide range of products, installation and maintenance services for the branch exchange market. Telecom Namibia's sales outlets, Teleshops, offer a wide range of customer premises equipment to the market.

Customer Relationship Management (CRM)

CRM within Telecom Namibia is our business strategy that aims to understand, anticipate, manage and personalise the needs of our current and potential customers. The company recognises CRM as an ongoing process, but we are striving to uncover the secrets of outstanding customer service.

With its prime focus of building relationships with our key customers, the key focus areas for the past year have been:

- Visits and interactions with key customers;
- Account management;
- Sales;

International Services

International links

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

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 64,9 million minutes in 2006. Traffic to South Africa has stabilised, while traffic to neighbouring countries increased by 8 per cent over the previous year.

During June to September 2006 a special rate (50 per cent lower during off-peak periods) was introduced to Germany to coincide with the Soccer World Cup held there. Lower accounting rates were 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 in Europe and the USA.

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. With the second licensed mobile operator in the pipeline, these routes will become even more important. The usage on all the routes is constantly monitored in order to ensure quality service to all our customers. Adequate capacity is maintained to ensure a service with no bandwidth oversell.

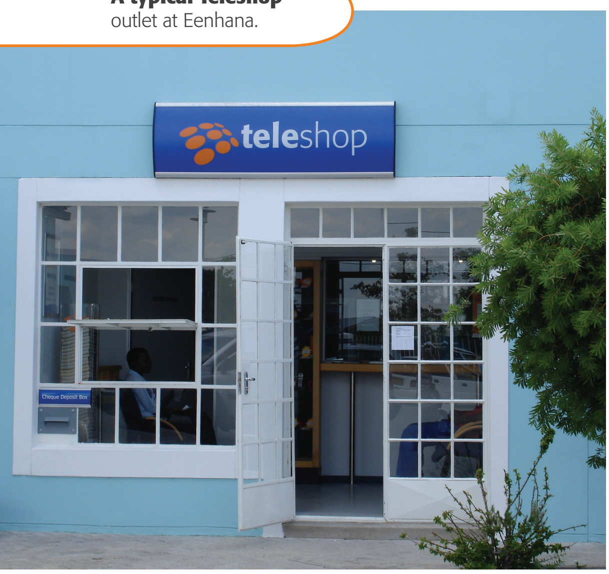
The IP Bandwidth lease tariffs will again be decreased by approximately 20 per cent at the end of 2006.

Marketing and Sales

Market and Product R&D

The focus for this year was to identify specific market requirements and develop solutions and strategies for Telecom Namibia to be a total ICT provider for both business and residential market segments.

A typical Teleshop outlet at Eenhana.



Due to popular market demand a more affordable recharge denomination of N$5 was introduced. Virtual voucher distribution agreements were signed with strategic partners to ensure availability of recharge vouchers in all major retail outlets in the different towns, including recharging via SMS for the sake of convenience.

Hotspots were introduced nationally in most major towns in Namibia to cater for Internet requirements of both business and residential customers. The service experience will be enhanced with the introduction of ADSL and other broadband services, like WiMAX and CDMA1X- EVDO in the new financial year. Customer experience has also been taken to a new level, with the introduction of a fully automated IVR (Interactive Voice Response) system that allows for services ranging from competition lines, opinion polls, data base hosting and call routing services. Video conferencing services will be expanded to all major towns in Namibia during the new financial year.

Revenue recorded from new products launched during this financial year have shown a growth rate of 100 per cent from the previous financial year and stood at approximately N$18 million. A number of products and services are planned for launch in the new financial year. These products and services will focus on specific market requirements for business and residential segments and include solutions like, Short Messaging Services (SMS), narrow and broadband services from technologies like CDMA 2000 1X and EVDO, Metro Ethernet, ADSL, WiMAX Multimedia Messaging, content, Virtual Private Network, Fast Ethernet links and Video Calling.

Pricing and Tariffs

Major studies were concluded, aimed at restructuring Telecom Namibia's tariff and charging structures. The focus was on accelerating tariffs re-balancing mainly towards competitive tariff structures and applying the philosophy of keeping Telecom Namibia tariffs affordable to all customer segments. Tariffs for international IP bandwidth were reduced by approximately 20 per cent as from the 1 November 2005. Tariffs for international leased circuits were reduced by up to 20 per cent on 1 October 2005. On 1 July 2006, charging bands for national fixed to fixed line calls were merged leading to a reduction in domestic charging bands from three bands, namely: Local, 100 km and above 100 km to two only, namely: Local and National. Another major milestone is the planned move from a Unit Based Charging system to Per Second Billing scheduled to be implemented in the new financial year starting 1 October 2006.

On 1 October 2006, international call charges will be adjusted as follows:

- Tariffs for fixed-to-fixed calls to Angola, South Africa and neighbouring countries will be reduced on average by 20 per cent, six per cent and five per cent, respectively.
- Tariffs for calls to other international fixed line destinations will be lowered by an average of 15 per cent.
- Tariffs for fixed-to-mobile calls to Angola, RSA, Germany, The Netherlands, Sweden, Switzerland and UK will be kept unchanged, while fixed-to-mobile calls to Rest of the world and USA will be reduced by 15 per cent.
- Tariffs for calls to neighbouring mobile destinations will be adjusted to be inline with current fixed-to-RSA mobile tariffs.

Tariff structures for other products such as Dialaw@y VSAT and Callmaker were re-structured during the financial year under review.

Directory Product

The directory for this year was designed to be more than just a "nice-to-have". It is easy to use and customers can find people and places hassle-free. Emergency phone numbers for each town are listed in the first pages of the directory. Under the Medical Section, new listings were added for Acupuncturists, Biokineticists, Dental Laboratories, Family Physicians, Homeopaths, Laboratories, Orthodontist, Pathologists and Psychometrics

The Online Directory has been revised to make it user-friendlier, especially in terms of allowing for different ways to search for numbers. It is also a complete copy of the printed Directory.

Sales opportunities

The sales environment is changing very rapidly due to new technologies and increasing customer demands. The trends in the market have changed from mostly analogue services to more digital and IP services. The focus of sales is now to provide customer solutions in addition to offering products and services. Telecom Namibia has invested more in the training of employees and sales representatives to ensure proper customer service and solutions for enhancing businesses of our customers.

The company has sales representatives throughout the country to ensure quicker response to customers countrywide and during the next financial year even more customer representatives will be deployed in order to provide a more efficient service. Customer relationship managers are serving the top 200 customers in the country and plans are in place to strengthen the sales force. The move is towards having a customer-focused sales force with increased knowledge on customer needs, new products, services and solutions. Customers can be assured that within the new financial year many more creative solutions will be implemented.

Distribution and Customer Retention

The external customer survey results portray a satisfaction rate of 91.2 per cent in the retail distribution channel of Telecom Namibia. The retail channel contributed about N$488 million of Telecom Namibia's total revenue, succeeding in achieving

94.6 per cent of the set sales targets and after a saving of three per cent on operational expenses, brought the total channel profitability to a 52 per cent average.

In the past year the prepaid revenue for Telecom Namibia was under tremendous strain and we were faced with new challenges. Innovative approaches were introduced to maintain the same income levels (e.g. virtual distribution of prepaid airtime through all retail outlets). The company also embarked on a pilot project, testing the availability of airtime through vending machines and to be rolled out towards the end of 2006.

In April this year Telecom Namibia extended the retail distribution channel by opening four new outlets in the north and far north areas of the country. New Teleshops have been established at Ongwediva, Oshikango, Uutapi and Eenhana.

In order to meet customer demands, the company introduced new facilities to the public in retail outlets such as copying, faxing, private national/international calls and Internet access. We are in the process of rolling out these facilities and the majority of outlets have been covered.

Internet access is available at the following outlets:

- Erongo Business Area
  Teleshops Henties Bay, Omaruru, Swakopmund and Walvis Bay.
- Far North Business Area
  Teleshops Oshakati, Ongwediva, Uutapi, Opuwo, Ondangwa and Oshikango.
- Hardap Business Area
  Teleshops Gobabis, Mariental, Maltahöhe and Rehoboth.
- Karas Business Area
  Teleshops Oranjemund, Rosh Pinah, Lüderitz and Keetmanshoop.
- North-east Business Area
  Teleshops Grootfontein, Katima Mulilo, Otjiwarongo, Outjo, Khorixas, Otavi, Rundu and Tsumeb.
- Windhoek Business Area
  Telecentre, Teleshops Klein Windhoek and Maerua Mall.

With regard to customer retention, Telecom Namibia did not meet the target, but the number of disconnected lines was reduced significantly by 18 per cent from the previous financial year. This is due to new processes and procedures developed and implemented to track the reasons for disconnection and alternative solutions developed to assist customers in planning communication needs and expenses better e.g. the introduction of the CallMaker Package and Leased Cost Routing Product.

International Ventures

Angola

Investment

Shareholders have invested capital of US$9.7 million for the initial start-up of the company Mundo Startel (MST) in Angola. Telecom Namibia owns 44 per cent of MST and 56 per cent is owned by Angolan partners. An additional loan to the amount of US$12.8 million has been granted by the shareholders for ordering the NGN equipment for phase one which covers the roll out of the network in Luanda. Discussions are at an advanced stage with financial institutions for financing the rollout of the network in other parts of Angola.

Infrastructure

MST has designed a full IP next generation network for roll out throughout Angola over a period of five years.

The access to customers is entirely based on wireless technologies. MST will establish its own international and national links with redundancy but will also make use of existing terrestrial networks by incumbent operators.

The network components were ordered and delivered for installation by a supplier that was selected via public tender. The final network roll out will cover all 18 provinces of Angola, starting in Luanda. 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 Q2.

MST is currently constructing accommodation for the NGN network and office space for the employees. This building is nearing completion after it was seriously delayed by shortages of materials from neighbouring countries. The building is expected to be ready for handover by end of October 2006 when installation of the NGN will commence.

Human Resources

The Management committee consisting of the MD, Deputy MD, Technical Manager, Finance Manager and Human Resource Manager was appointed. The Marketing Manager has been recruited and is due to start his duties at the beginning of October 2006. Other positions filled are the Manager: HR, Manager: Marketing, Project Manager and a Strategic Planner.

In the technical division seven engineers/technicians were recruited and sent for training in the various fields of the Next Generation Network.

Constraints

Angola specific issues seriously delayed the project. These issues are:

- Approval to start with the construction of the building
- Importation of material and network equipment at the Namibian/Angolan border and at the Luanda port.
- Frequency spectrum requirements.
- The acquisition of sites throughout Luanda and the availability of power and the supply thereof to the sites.
- The issuing of work visa for the expatriates to continuously work in Luanda.

South Africa

The Second Network Operator in South Africa was finally launched in Johannesburg on 31 August 2006 under the name Neotel. At its birth, Neotel announced the launch of its wholesale international services. Wholesale customers of Neotel are able to pass the advantages of Neotel's service quality and price benefits on to the end users.
Neotel expects to have its first residential and SMME customers connected by the end of Q2 next year.

In February 2007, due to the delays of the Infraco network supplied by Government, Corporate Services will begin with a limited number of customers in the major metros of Johannesburg, Pretoria, Cape Town and Durban. Vendor selection was done through a robust process to ensure that Neotel can provide the latest services at competitive prices. As the strategic equity partner VSNL will ensure early market entry and enforce world standard pricing from the local suppliers. Telecom Namibia will add 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 not be accessed as yet. This will again be actively pursued during 2007 when the initial landing monopoly is coming to an end.

Networks and Systems

While the network and systems grow and expand annually, the level of service performance and quality is commendable. Network failures are detected immediately, followed by prompt responses and ongoing regular follow-ups.

Furthermore, the backbone networks and systems maintained the high level of availability above 99.9 per cent. However, the many different Access Networks achieved a performance scale of 99.6 per cent mainly due to external factors, such as grid power failures, contractor damage, lightning, vandalism, and so on.

See attached tables on the next page in respect of networks and systems availability and quality.

Capital Projects

Telecom Namibia's ICMS (Integrated Customer Management and Billing System) was upgraded in order to expand its capability and features allowing new workflows and billing methods.

The Channel 7 Access Road was re-built thereby allowing safe access to the site for Telecom Namibia's maintenance and operations personnel.

Backbone Network and Business Systems Performance 2004 - 2005

International	Availability %	Answer- Seizure Ratio	ASR
All international outgoing routes (average)	-	60.02	(+1,97)
All international incoming routes (average)	-	55.24	(-3,90)
All national routes (average)	-	64.48	(-0,81)
Average other neighbouring countries	-	39.01	(-4,41)
Average for direct international satellite routes	99,997	(-0,001)	52(+10)
International switching centre	99,974	-	-

Backbone Network and Business Systems Performance 2006 - 2007

National	Availability %	Change	Ports used	Change
Optic Fibre SDH network	99,965	-0,032	-	-
Microwave - digital	99,732	-0,177	-	-
OFDC Networks	98,958	+1,209	-	-
EWSD digital exchanges	100	0	-	-
DLU's	99,999	+0,009	-	-
SDE's	99,980	+0,054	-	-
Rurtel	98,717	-1,052	845	-156
Ultra Phones	99,881	-0,053	6521	+33
DECT	99,974	+0,012	1110	+164
MGW	99,912	-6,088	3537	+433
VSAT hub Faraway	99,880	+0,097	-	-
VSAT hub Dial@wayIP	99,962	+0,918	-	-
Total National backbone network (average)	**99,678**	**+0,006**	**-**	**-**

Support Systems	Availability %	Change
Engine generators	99,980	-0,015
Rectifiers	99,994	-0,003
Batteries	100	0
Air-condition	100	+0,001
Solar Systems	99,979	-0,015
Fire systems	100	0
UPS	99,970	-0,03
Total average Support Systems (across 312 sites)	**99,989**	**-0,009**
Average power availability	**99,987**	**-0,011**

Business Systems	Availability %	Change
Internet	99,74	-0,22
Exchange (e-mail)	100	0
Domain Controllers (Logon authentication)	99,96	-0,04
ICMS	99,98	0
SAP	100	0
Mediation	100	0
Total average Business Systems	**99,95**	**-0,043**

Major expansions were implemented using Universal Modular Carrier 1000E (UMC1000E) equipment for the provision of services to rural fixed line customers.

A new telecommunications site was established at Maerua Park in Windhoek to cater for business and residential customers in the area.

The national backbone transmission equipment's (Marconi MSH series Synchronous Digital Hierarchy) network element management system was upgraded. The upgrade allows the total Marconi Backbone equipment to be managed from Telecom Namibia's Network Management Centre and allows circuits to be created between ports automatically and efficiently throughout Namibia.

Optical Fibre Cables were installed in the Windhoek Metropolitan Area to provide broadband data (up to Gigabit Ethernet) capabilities for Telecom Namibia's business clients. This was planned as the first phase for broadband via optical fibre to create a "MetroEthernet" environment.

Portable voice and data service delivery was made possible by means of CDMA technology (Code Division Multiple Access). Huawei Technologies Co. Ltd supplies the technology. Two versions of the CDMA technology are being deployed being CDMA 1X and the CDMA EVDO. The current version of the CDMA 1X technology provides for high quality mobile voice and high-speed data (153.6kbit/s upstream and up to 307kbit/s downstream) and the current version of the CDMA EVDO provides for mobile data services (up to 153.6kbit/s upstream and up to 2457kbit/s downstream).

WiFi (Hotspots) were deployed at major centres in Namibia e.g. airports, various hotels and shopping centres allowing roaming customers access to the internet through a pre-paid card system and their own technology such a laptop enabled computer or WiFi enabled mobile handset.

A new power generator was commissioned at Telecom Namibia's Disaster Recovery Centre (DRC) in Pioneers Park suburb of Windhoek. The generator operates automatically under extended period mains power failures in order to charge standby batteries.

The Optical Fibre Digital Concentrator equipment at Omuthiya was replaced with Marconi SDH equipment as carrier transport and UMC1000E OFDC equipment as access. The OFDC was becoming outdated and was prone to higher failure rates which affected customers unacceptably.

A standby generator was installed at Mabela to increase the availability of the services due to AC mains failures. Mabela is a major site that provides voice and dial-up data services to Telecom Namibia's rural customers by means of Siemens Ultraphone wireless technology.

Major expansions were incorporated to the company's national switching technology (Siemens EWSD) to cater for the customer's exponential demand for ISDN services.

Telecom Namibia's DialAw@y technology which provides for voice and IP (Internet Protocol) via VSAT (very Small Apperture Terminal) satellite technology was upgraded to provide for more customers as well as to provide higher data speeds for Internet access.

A Fraud Management System is being deployed in order to minimise the losses due to fraud on telephony services thereby affecting Telecom Namibia's paying customers. Fraud activities e.g. "Call-Back", "Clip-On" etc. will be drastically reduced.

Projects are currently running to close Telecom's Northern and Southern Optical Fibre transmission backbone rings to improve the Availability of the national transmission network. This means that traffic along these major routes can be re-directed automatically should there be failures due to optical fibre breaks or transmission equipment.

An Operational Support System known as CAD/GIS (Computer Aided Design/Geographic Information System) is being expanded to include the national backbone and outside plant information. This expansion will allow improve the efficiency of maintenance and operations as well as planning and implementation of new projects.

A project called Global Maritime Distress Signal System (GMDSS) is currently underway for the Ministry of Fisheries and Marine Resources which will improve the safety of shipping off the Namibian coastline.

A Telecom Namibia tower at Walvis Bay is currently being replaced and new transmission, access and support systems are being installed at Langer Heinrich mine and at Walvis Bay airport. The equipment will ensure voice and data services at the Langer Heinrich and at the airport.

Telecom Namibia's National Switching technology, Siemens EWSD, is being upgraded from version V11 to version V17. The Siemens EWSD Switching Node (SN) is also being expanded due to the increase of interconnection traffic for mobile operations.

Telecom Namibia's mediation and activation platform, EventLink and InstantLink, is being expanded to allow new mediation techniques for billing voice and data services through the ICMS platform due to new technologies that deliver voice and data services such as ADSL, WIMAX and CDMA. The expansions of InstantLink will allow services to be configured automatically thus reducing the time to customer service delivery. The expansions require that Telecom's Hewlett Packard servers are expanded, a project also currently underway.

Telecom Namibia is also deploying a new IP data transport core technology known as Internet Protocol (IP)/Multi-Protocol Label Switching (MPLS) which essentially guarantees quality of service and availability for IP data including Voice over IP.

Customers at Reoland (Ultraphone) will now experience much improved service availability due to a major optical fibre transmission system upgrade. The transmission at Reoland was by means of Radio technology by was plagued with fading due to the difficult terrain in the area and hence replaced with Marconi SDH optical fibre transmission equipment.

Telecom Namibia is planning new Broadband Access technology known as Asymmetric Digital Subscriber Line 2 Plus (ADSL 2+). This technology delivers Broadband Data to residential and business customers mainly for Internet Access. The version of the technology ADSL 2+ technology can deliver broadband data at speeds up to 25Mbit/s downstream and 1.5Mbit/s upstream. The speed is largely affected by the distance and quality of the copper line from Telecom's site to the subscriber.

Another technology known as Wireless Interoperability for Microwave Access (WiMAX) is also planned for deployment to complement ADSL and as a replacement for wireless technology that currently provides voice and dial-up data. The technology will ensure broadband Internet access and voice services to customers that cannot be serviced via ADSL technology.

The Telecom Management Network as well as the viewing interface (big screen) is being upgraded with the latest platform called Netcool. The platform will allow all the major network technologies to be monitored and viewed at a central location. The project will improve operational efficiency and response times in case of network element failures or performance degradations.

Human Resources

Telecom Namibia operates in a fluid industry which continues to present challenges to the company in the area of human resources management. The main challenges experienced are in the area of skills development, reward and recognition as well as the continuous need to ensure that the company has at its disposal a committed, competent and motivated workforce.

This report summarises the key HR highlights for the year ended 30 September 2006

Staff Complement

The full-time staff complement of Telecom Namibia stood at 1 217 by the end of the financial year. In addition, 32 students were employed as Engineers-in-Training, Engineering Technicians-in-Training and IP Technicians-in-Training. These trainees are destined to qualify as Engineers and Technicians in the various converged telecommunication streams. Furthermore, 57 contract workers were employed on a defined period for short-term assignments. Thus the total number of employees stood at 1 306 as at 30 September 2006.

Employment Equity

In compliance with the Affirmative Action Act, Act 29 of 1998, Telecom Namibia submitted an AA Progress Report to the Employment Equity Commissioner, which was subsequently approved by the Commissioner.

Management identified women and persons with disabilities as underrepresented in the company. The company continued therefore to implement affirmative action measures and interventions to ensure that employees from the designated groups, especially at managerial levels, are represented.

Overall the representation of designated groups in Telecom Namibia stood at 89% of total workforce. The representation of women and persons with disabilities in the company remains poor especially in the converged Engineering and Information Technology fields. This is despite Telecom Namibia's continued efforts to grant bursaries and financial assistance to women to study in the stated fields of employment. On a positive side, women constitute 38 per cent of all current Telecom Namibia bursary holders and are significantly represented in non-technical work functions in the company.

In addition, 94 per cent of employees recruited were from the designated groups, 25 per cent of which are females. Employees from the designated groups accounted for 94 per cent of all internal promotions and females accounted for 29 per cent.

Recruitment & Promotions

A total of 36 permanent employees were recruited and 35 employees were internally promoted resulting in total placement of 71 employees. During the year, the company experienced problems of not being able to recruit and place suitably qualified persons as the Namibian labour market has an acute shortage of suitably trained and qualified persons in the fields of Telecommunication, Electronic Engineering, Information Technology and Internet Protocol.

During the period under review, the recruitment and selection assessment tools which seek to streamline the resourcing and selection of human capital, assess the potential and identify future leaders and enable the business to attract and retain the best talent has been introduced.

Employee Separation

During the period under review a total of 50 permanent employees terminated their employment with the company, which constitute a turnover rate of five per cent.

The magic unfolds at the touch of a button...when hopes are shared and dreams inspired.

Transcending language, across culture, around the globe we share one hope, one future - one world.

Termination Categories	Numbers	As % of total workforce, 2006 = 1217 (Turnover rate)	As % of total employee separation
Resignations	33	2.71%	66%
Ill-health retirement	2	0.16%	4%
Normal retirement	3	0.25%	6%
Deaths	9	0.74%	18%
Dismissals	5	0.41%	10%
Total	**50**		

The staff turnover in Telecom Namibia is concentrated at the skilled and specialised technical level where skills are generally not available from the market.

Remuneration

An important milestone in the area of employee remuneration was the approval by Board of a Remuneration Philosophy. The Remuneration Philosophy now constitutes a strategic document providing much needed direction in the options we add on to compensation with respect to policies and procedures as well as operating standards that we set for the business.

The company participated in the PE-Survey in addition to a new survey on Government Parastatal organisations. A comparison of our total cost of employment against other companies in Namibia shows that our remuneration levels are competitive.

Staff Retention Strategies

With the coming on board of other players in the information and communication business Telecom Namibia has had to contend with the competition for scarce technical skills and being the target for poaching.

Thanks to the robustness of our remuneration structure the business ostensibly has the scope to retain the much needed skills particularly where the employees' performance and strategic value in respect to projects, key processes, customer service or indeed general maintenance is of key importance.

A series of retention measures were approved for implementation thus enabling the business to move to stem a growing tide of exit of skills. The lesson learnt among others is that while an initial allocation to retain technical skills to specialist adjustments saved us all, be it for a short while, it was still necessary for Telecom Namibia to adopt further measures in order to retain key staff in the face of determined competition for talent and custom share on the local market.

Employees of Telecom Namibia lined up to deliver services to customers.

Sales Commission

For the first time a sales commission scheme was implemented exclusively for all Sales Representative designated employees. The implementation of the scheme positively impacted on the company's revenue, resulting in the business plan to additionally introduce a sales incentive scheme targeting employees involved in a measure of sales in Teleshops. This additional scheme will pick-back on the Sales Representative Scheme with an accent on the sales portion. Implementation is expected in the first quarter of the new financial year.

Performance Management

In order to realise the full benefits of our robust Performance Management System, a training programme was formulated to endow Line Management with the necessary competencies to work with and manage the system in terms of its designed construct. Training started in 2006 and will continue for completion during the first quarter of the new financial year.

At organisational level the Balance Scorecard, which is the business performance system, was the focus to ensure alignment at business level, division level and department level. With few exceptions the majority of divisions now have operational Balance Scorecard at up to Level Three. However the automation on Hyperion has continued to elude the business with the latest hurdle being the need to ensure synchronisation with SAP and the accurate reflection of the organisational structure for the system to be fully operational. The realisation of the full benefits of the investment in Hyperion remains a challenge in the new financial year.

Short-Term Incentive Scheme

For some time now the current construct of funding for employee annual performance-based bonuses has been of concern. The review process was undertaken resulting in the adoption of a company performance-based model which provides for the level of bonus funding being aligned to business performance. This scheme has found favour and approval at all levels of management.

Succession Planning

Succession Planning and Talent Management after several benchmark visits has now found its place in our governance framework in the form of a policy. Top Management approved this policy and the Divisional General Managers have to date recommended specific positions to be targeted for Succession Planning.

Rural Attraction and Retention Incentive

During the course of the year the much awaited Attraction and Retention Rural Incentive Policy was implemented in order to try and ensure that the business is able to retain skills in rural areas which have tended to drift into urban areas from key stations in remote and rural locations.

Promotions/Career Paths/Multi-skilling

Top Management also gave their approval to the Promotion Policy which incorporates significant parameters for both employee growth and employee retention. During the course of the year work also started on a governance framework on Career Paths and Multi-skilling in the inception stage focusing on Telecom Electricians and Fitter/Faults men. Management gave their input into this key governance instrument and plans to have multi-skilling training during 2007.

Total Remuneration Package

In line with best practice, a total package remuneration approach was implemented during the year for all managerial employees. Consultations are currently underway with the Union stakeholders to extend the approach to the bargaining unit.

Employee Relations

Telecom Namibia firmly believes in the power of esprit de corps and thus provides its employees with congenial atmosphere to work as a cohesive team. The efforts of all the employees are synchronised and coordinated towards achieving common objectives. Further, all employees are encouraged to participate in the decision making process. During the year 2005-06 the employee management relations remained cordial.

Financial Statements

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

For the year ended 30 September 2006

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 Namibia Post and Telecom Holdings Ltd 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 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 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 Namibian Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with Namibian Statements of Generally Accepted Accounting Practice 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 53.

The financial statements set out on pages 54 to 78 were approved and authorised for issue by the board of directors on 10 August 2007 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 2006, 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 Namibian Statements of Generally Accepted Accounting Practice 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 2006, and of its financial performance and their cash flows for the year then ended in accordance with Namibian Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act of Namibia.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants (Namibia)
Windhoek
10 August 2007

Balance Sheets
for the year ended 30 September 2006

	Notes	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
ASSETS				
Non-current assets				
Plant and equipment	**24**	792 403	792 403	797 281
Investment in subsidiary	**42**	--	24 045	--
Loans advanced	**44**	3 745	--	--
Investment in associated company	**43**	28 760	34 326	--
Investments	**25**	78 940	71 943	64 344
Intangible asset	**45**	13 246	--	--
		917 094	922 717	861 625
Current assets				
Inventories	**26**	25 414	25 414	25 094
Accounts receivable	**27**	141 985	141 985	152 526
Amounts owing by fellow subsidiaries	**39**	1 921	1 921	4 242
Amounts owing by holding group	**39**	601	601	247
Current tax asset	**34**	2 771	2 771	--
Cash and cash equivalents	**28**	212 893	212 839	223 262
		385 585	385 531	405 371
		1 302 679	1 308 248	1 266 996
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	**29**	154 530	154 530	154 530
Retained earnings		533 554	539 123	471 922
		688 084	693 653	626 452
Non-current liabilities				
Retirement benefit obligations	**37**	46 123	46 123	44 072
Long term liabilities	**30**	119 764	119 764	169 706
Deferred tax	**32**	194 137	194 137	203 192
		360 024	360 024	416 970
Current liabilities				
Trade and other payables	**33**	188 739	188 739	136 305
Shortterm portion of longterm liabilities	**30**	64 569	64 569	62 581
Bank overdraft	**28**	--	--	19 424
Amount owing to fellow subsidiaries	**39**	1 263	1 263	347
Receiver of Revenue	**34**	--	--	4 917
		254 571	254 571	223 574
Total liabilities		614 595	614 595	640 544
Total equity and liabilities		1 302 679	1 308 248	1 266 996

Income Statements
for the year ended 30 September 2006

	Notes	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Revenue		1 057 748	1 057 748	1 055 275
Other operating income		1 827	1 827	3 091
Distribution costs		(273 500)	(273 500)	(270 360)
Administrative expenses		(464 135)	(464 132)	(634 462)
Other operating expenses		(190 012)	(190 012)	(17 171)
Operating profit	**21**	131 928	131 931	136 373
Financial items	**22**	(1 145)	(1 145)	(3 644)
Profit before tax		130 783	130 786	132 729
Taxation	**23**	(46 643)	(46 643)	(48 121)
Share of results of associate after tax	**43**	(5 566)	--	--
Net profit for the year		78 574	84 143	84 608

Statements of Changes in Equity
for the year ended 30 September 2006

	Notes	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Share capital				
Ordinary shares				
At beginning of year	**29**	154 530	154 530	154 530
Retained earnings				
Balance: beginning of year as restated		471 922	471 922	411 516
As previously stated		471 922	471 922	434 926
Prior year adjustment		--	--	(23 410)
Net profit for the year		78 574	84 143	84 608
Dividends		(16 942)	(16 942)	(24 202)
Balance: end of year		533 554	539 123	471 922

Dividends of 10,96 cents per share were paid during the year (2005 : 15,66 cents).

Cash flow statements
for the year ended 30 September 2006

	Notes	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Cash flow from operating activities				
Operating profit		131 928	131 931	136 373
Adjustment for:				
Increase in post-retirement benefit obligation		2 051	2 051	5 470
Depreciation	24	174 743	174 743	153 388
Profit on disposal of plant and equipment		(607)	(607)	(330)
Working capital changes	38	56 243	65 538	(109 910)
Cash generated from operations		364 358	373 656	184 991
Investment income		1 211	1 211	1 618
Financial costs		(2 356)	(2 356)	(5 262)
Dividends		(16 942)	(16 942)	(24 202)
Tax paid	34	(63 386)	(63 386)	(80 197)
Net cash flow from operating activities		282 885	292 183	76 948
Cash flow from investing activities				
Expenditure for expansion				
Plant and equipment acquired	24	(170 009)	(170 009)	(126 244)
Decrease/(increase) in investment		(13 346)	(7 599)	124 714
Proceeds on disposals – Plant and equipment		751	751	332
Investment in subsidiary acquired		(8 946)	(9 000)	--
Investment in associated company acquired		(29 893)	(29 893)	--
Increase in loan to subsidiary company		--	(15 045)	--
Increase in loan to associate company		(4 433)	(4 433)	--
Net cash flow used in investing activities		(225 876)	(235 228)	(1 198)
Cash flow from financing activities				
Net long-term loans repaid		(47 954)	(47 954)	(67 986)
Net cash flow used in financing activities		(47 954)	(47 954)	(67 986)
Net increase in cash and cash equivalents		9 055	9 001	7 764
Cash and cash equivalents at beginning of year		203 838	203 838	196 074
Cash and cash equivalents at end of year	28	212 893	212 839	203 838

Notes to the financial statements
for the year ended 30 September 2006

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

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.

The preparation of financial statements in conformity with Namibian Statements of Generally Accepted Accounting Practice 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 company makes estimates and assumptions concerning the future. No estimates and assumptions have been identified that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

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.

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.

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.

Notes to the financial statements
for the year ended 30 September 2006

2. Plant and equipment (continued)

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 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.

3. 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.

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, 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.

5. 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.

Notes to the financial statements
for the year ended 30 September 2006

5. Financial assets - continued

(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.

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.

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 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.

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.

Notes to the financial statements
for the year ended 30 September 2006

8. 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.

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 group'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, which ever is the shorter.

13. Post-retirement obligations
The group 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.

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

Other revenue earned by the group 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 group is exposed to interest rate, liquidity, exchange rate and credit risk.

Notes to the financial statements
for the year ended 30 September 2006

15. Financial instruments - continued
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% (2005: 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	709 760	N$ 9,98	=	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.

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.

18. Foreign currency translation
Foreign currency balances are translated into the functional currency using the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such balances and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the financial statements
for the year ended 30 September 2006

19. 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.

20. New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 October 2005. These new standards and interpretations have not been early adopted by the group and a reliable estimate of the impact of the adoption thereof for the group cannot yet be determined. Directors' do not expect that the adoption of the standards and interpretations will have a material impact on future financial statements.

IFRS 6 (AC 143) - Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

IFRS 7 (AC 144), 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 (AC 145), Operating segments (effective 1 January 2009)

IAS 19 (AC 116) (Amendment) - Employee Benefits (effective from 1 January 2006).

IAS 21 (AC 112) (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006).

IAS 39 (AC 133) and IFRS 4 (AC 141) (Amendment) - Financial Guarantee Contracts (effective from 1 January 2006).

IAS 39 (AC 133) (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).

IAS 39 (AC 133) (Amendment) - The Fair Value Option (effective from 1 January 2006).

IFRIC Interpretation 4 (AC 437) - Determining whether an Arrangement Contains a Lease (effective from 1 January 2006).

IFRIC Interpretation 5 (AC 438) - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).

IFRIC Interpretation 6 (AC 439) - Liabilities arising from Participating in a Specific Market - Waste electrical and Electronic Equipment (effective from 1 January 2006).

IFRIC Interpretation 7 (AC 440) - Applying the Restatement Approach under IAS 29 (AC 124) Financial Reporting in Hyperinflationary Economics (effective from 1 March 2006).

IFRIC Interpretation 8 (AC 441) - Scope of IFRS 2 (effective from 1 May 2006).

IFRIC Interpretation 9 (AC 442) - Reassessment of Embedded Derivatives.

IFRIC Interpretation 10 (AC 443) - Interim financial reporting and impairment (effective from 1 November 2006).

AC 503 - Accounting for Black Economic Empowerment ("BEE") transactions

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

AC 502 - Substantively Enacted Tax Rates and Tax Laws (Issued February 2006) (effective February 2006).

IFRIC Interpretation 12 (AC 445) - Service concession arrangements (effective from 1 January 2008).

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
21. Operating Profit			
The following items have been charged/(credited) in arriving at operating profit:			
Auditors' remuneration			
Audit fees - current year	478	478	434
Other services – current year	285	285	156
	763	763	590
Depreciation (refer note 24)	174 743	174 743	153 388
Directors' emoluments			
For management	1 209	1 209	903
As directors	253	253	298
	1 462	1 462	1 201
Profit on disposal of plant and equipment	(607)	(607)	(330)
Operating lease rentals			
Land and buildings	28 651	28 651	25 752
Motor vehicles	17 565	17 565	17 482
Cost of sales	7 647	7 647	13 777
Staff costs			
Salaries and wages	150 791	150 791	148 773
Medical aid contributions	14 861	14 861	15 149
Pension fund contributions	23 713	23 713	23 462
Social Security Commission contributions	411	411	469

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
22. Financial Items			
Interest received	28 598	28 598	40 953
Less: Interest paid	(30 000)	(30 000)	(45 833)
Long-term loans and promissory notes	(26 800)	(26 800)	(42 633)
Other interest	(3 200)	(3 200)	(3 200)
Foreign currency gains/(losses)	257	257	1 236
Realised	(199)	(199)	1 406
Unrealised	456	456	(170)
	(1 145)	(1 145)	(3 644)
23. Taxation			
Namibian normal income tax	(55 698)	(55 698)	(64 418)
Deferred tax			
Current year timing differences	9 055	9 055	16 297
Tax charge for the year	(46 643)	(46 643)	(48 121)

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

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Profit before tax	130 783	130 786	132 729
Tax calculated at a tax rate of 35% (2005 : 35%)	(45 774)	(45 775)	(46 455)
- Income not subject to tax	316	316	--
- Expenses not deductible for tax purposes	(1 185)	(1 184)	(1 666)
Tax charge	(46 643)	(46 643)	(48 121)

Notes to the financial statements
for the year ended 30 September 2006

	Telecommunication installations and equipment N$'000	Furniture and fittings N$'000	Capital work in progress N$'000	Motor vehicles N$'000	Total N$'000
24. Plant and equipment					
Company					
Year ended 30 September 2006					
Cost					
Beginning of year	1 686 661	295 311	70 457	2 441	2 054 870
Additions	--	11 499	158 510	--	170 009
Disposals	(1 672)	(3 560)	--	(429)	(5 661)
Transfers	71 479	--	(71 479)	--	--
End of year	1 756 468	303 250	157 488	2 012	2 219 218
Accumulated depreciation					
Beginning of year	1 028 610	226 576	--	2 403	1 257 589
Depreciation charge	145 157	29 575	--	11	174 743
Depreciation on disposals	(1 642)	(3 446)	--	(429)	(5 517)
End of year	1 172 125	252 705	--	1 985	1 426 815
Bookvalue at 30 September 2006	584 343	50 545	157 488	27	792 403
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

Certain of the fixed assets have been encumbered as stated in note 30.

Notes to the financial statements
for the year ended 30 September 2006

	Telecommunication installations and equipment N$'000	Furniture and fittings N$'000	Capital work in progress N$'000	Motor vehicles N$'000	Total N$'000
24. Plant and equipment (continued)					
Group					
Year ended 30 September 2006					
Cost					
Beginning of year	1 686 661	295 311	70 457	2 441	2 054 870
Additions	--	11 499	158 510	--	170 009
Disposals	(1 672)	(3 560)	--	(429)	(5 661)
Transfers	71 479	--	(71 479)	--	--
End of year	1 756 468	303 250	157 488	2 012	2 219 218
Accumulated depreciation					
Beginning of year	1 028 610	226 576	--	2 403	1 257 589
Depreciation charge	145 157	29 575	--	11	174 743
Depreciation on disposals	(1 642)	(3 446)	--	(429)	(5 517)
End of year	1 172 125	252 705	--	1 985	1 426 815
Bookvalue at 30 September 2006	584 343	50 545	157 488	27	792 403

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
25. Investments			
Loans originated			
Bank Windhoek : Ceded deposit	71 943	71 943	64 344
The deposit earns interest at 18,7% (2005: 18,7%) p.a. The deposit was ceded as security for a Bank Windhoek loan account (refer note 30).			
Available-for-sale			
Neotel (Pty) Ltd – preference shares	1 749	--	--
– loan advanced	5 248	--	--
	78 940	71 943	64 344
At beginning of year	64 344	64 344	189 058
Acquisition of subsidiary	1 250	--	--
Additions	13 346	7 599	6 316
Disposals	--	--	(120 725)
Proceeds on disposal	--	--	(12 521)
Profit on disposal	--	--	2 216
At end of year	78 940	71 943	64 344
26. Inventories			
Materials for installations	22 418	22 418	22 214
Workshop and consumable stores	810	810	693
Goods for resale	2 186	2 186	2 187
	25 414	25 414	25 094

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
27. Accounts receivable			
Trade receivables			
Total trade receivables	145 372	145 372	122 059
Less: Provision for impairment	(11 627)	(11 627)	(14 292)
Other debtors	8 240	8 240	44 759
	141 985	141 985	152 526
28. Cash and cash equivalents			
Bank balances	202 594	202 540	217 121
Cash on hand	10 299	10 299	6 141
	212 893	212 839	223 262

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

Bank balances	202 594	202 540	217 121
Cash on hand	10 299	10 299	6 141
Bank overdraft	--	--	(19 424)
	212 893	212 839	203 838

29. Share capital

Authorised

200 000 000 (2005: 200 000 000) ordinary shares of N$1 (2005: N$1) each	200 000	200 000	200 000

Issued

154 529 936 (2005:154 529 936) ordinary shares of N$1 (2005: N$1) each	154 530	154 530	154 530

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
30. Long Term Liabilities			
Secured			
Loan from European Investment Bank. The group has entered into currency swap agreements that entitle it to pay interest at rates varying between 10,96% and 12,25% p.a. (2005: 10,96% and 11,7% p.a.) The capital amount is repayable in 15 (2005 : 10) semi-annual instalments with the final instalment due in 2013. Interest is paid semi annually on the outstanding capital amount. A letter of guarantee covering the principal debt and interest has been issued by the Government of Namibia.	71 575	71 575	84 030
The following foreign amounts were outstanding at year-end in respect of this loan and the following exchange rates were used:			
EUR 6 571 63 N$ 9,98 = EUR 1			
GBP 2 476 232 N$ 14,73 = GBP 1			
US$ 771 830 N$ 7,86 = USD 1			
Loan from Bank Windhoek Limited	75 053	75 053	71 634
The Bank Windhoek loan account is currently bearing interest at a fixed rate of 19% (2005 : 19%). The capital amount is repayable in 3 (2005: 4) 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% (2005 : 18,7%) p.a.			
Balance carried forward	146 628	146 628	155 664

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
30. Long Term Liabilities (continued)			
Balance brought forward	146 628	146 628	155 664
First National Bank of Namibia Limited	10 213	10 213	18 435
Promissory notes of N$ 50 million issued to First National Bank of Namibia Limited at a fixed interest rate of 15,5% (2005 :15,5%) p.a. or 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% (2005 : 15,6%) p.a. The facility is repayable in 2 (2005 : 4) bi-annual instalments of N$ 5 618 325 (2005 : N$5 684 668)) each, with the final instalment due in 2007. The interest is capitalised to the loan. Suretyship for N$50 million has been provided to the bank by the holding group.			
- Funding facility	10 213	10 213	18 435
- Promissory notes plus capitalised interest	276 152	276 152	229 835
- Less: Deposit ceded plus capitalised interest	(276 152)	(276 152)	(229 835)
Telecom Namibia registered loan stock bearing interest at 16% (2005 : 16%) p.a., paid bi-annually in arrears. The capital amount is repayable in 2007. The bonds were issued at a premium of N$ 125 786.	20 535	20 535	20 535
Loan from Kreditanstalt fur Wiederaufbau (KfW) channelled through the Government of the Republic of Namibia bearing interest at 2% (2005 : 2%) p.a. The loan is repayable in 5 (2005 : 7) semi-annual instalments.	6 957	6 957	7 653
The loan of Euro 709 760 (2005: N$999 492) has been stated at spot rate of N$9,98 (2005: N$7,66). Also refer note 31.			
Balance carried forward	184 333	184 333	202 287

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
30. Long Term Liabilities (continued)			
Balance brought forward	184 333	184 333	202 287
First National Bank of Namibia Limited, and	--	--	24 000
Bank Windhoek Limited	--	--	6 000
These loans were fully repaid in the year			
	184 333	184 333	232 287
Less: Short-term portion transferred to current liabilities	(64 569)	(64 569)	(62 581)
	119 764	119 764	169 706
Maturity of non-current borrowings (excluding finance lease liabilities):			
Not later than 1 year	64 569	64 569	62 581
Later than 1 year and not later than 5 years	119 764	119 764	169 706
	184 333	184 333	232 287

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
31. Total interest bearing borrowings			
- Long-term loans	119 764	119 764	169 706
- Short-term loans	64 569	64 569	62 581
- Bank overdrafts	--	--	19 424
	184 333	184 333	251 711

32. Deferred tax

Deferred income taxes are calculated on all temporary differences under the comprehensive method using a principal tax rate of 35% (2005 : 35%).

The movement on the deferred income account is as follows:

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
At beginning of year	203 192	203 192	219 489
Movements during year attributable to:			
Timing differences	(9 055)	(9 055)	(16 297)
At end of year	194 137	194 137	203 192
Deferred tax liabilities may be analysed as follows:			
Capital allowances	223 486	223 486	232 788
Provisions	(19 928)	(19 928)	(21 478)
Advanced income	(9 421)	(9 421)	(8 118)
	194 137	194 137	203 192

33. Trade and other payables

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Trade payables	146 040	146 040	72 088
Foreign exchange contracts (refer note 30)	1 666	1 666	4 248
Accruals	38 479	38 479	54 042
Receiver of Revenue - VAT	2 554	2 554	5 927
	188 739	188 739	136 305

34. Receiver of Revenue

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Balance at beginning of year	4 917	4 917	20 696
Charge to income statement	46 643	46 643	48 121
Deferred tax adjustment	9 055	9 055	16 297
Balance at end of year	2 771	2 771	(4 917)
Payments made	63 386	63 386	80 197

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
35. Capital expenditure approved			
Commitments in respect of contracts placed	44 894	44 894	1 052
	44 894	44 894	1 052

It is intended to finance capital expenditure from existing borrowing facilities and from working capital generated within the group.

36. 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 acturial valuation was carried out for the year ended 30 September 2005, which indicated that the fund was in a sound financial position.

37. 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$ 46,123 million (2005: N$44,072 million).
The principal actuarial assumptions used for accounting purposes were:

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
37. Post retirement benefits (continued)			
- Real rate of return	2%	2%	2%
- Discount rate	9%	9%	8,5%
- Medical inflation rate	7,75%	7,75%	6,5%
Balance at beginning of year	44 072	44 072	38 602
Current service cost	1 887	1 887	2 081
Interest cost	3 608	3 608	4 019
Miscellaneous item	(2 136)	(2 136)	477
Actuarial profit	(1 308)	(1 308)	(1 107)
Balance at end of year	46 123	46 123	44 072
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	1 177	1 177	1 160
Average age (years)	39,7	39,7	38,75
Details of the current pensioner members belonging to the medical aid are as follows:			
Number of employees	172	172	198
Average age (years)	58,7	58,7	57,65
38. Working capital changes			
Decrease in working capital during the year			
(Increase) / Decrease in inventories	(320)	(320)	8 363
Decrease / (Increase) in accounts receivable	1 246	10 541	(16 019)
Increase / (Decrease) in accounts payable	52 434	52 434	(102 668)
Increase in indebtness to fellow subsidiaries	916	916	219
Decrease in indebtness by fellow subsidiaries	2 321	2 321	668
Decrease in amount owing to holding group	--	--	(226)
Increase in amount owing by holding group	(354)	(354)	(247)
	56 243	65 538	(109 910)

Notes to the financial statements
for the year ended 30 September 2006

39. 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.

The following transactions were carried out with related parties:

i) Sales of services

Namibia Post Limited : N$26 084 500 (2005 : N$30 789 000)
Mobile Telecommunications Limited : N$100 472 363 (2005 : N$77 736 886))
Namibia Post and Telecom Holdings Limited is the group's holding group 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$44 110 021 (2005 : N$42 523 123)
Namibia Post Limited : N$ 2 390 334 (2005 : N$288 004)
Mobile Telecommunications Limited: N$140 355 000 (2005: N$145 575 928)

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$ 1 921 218 (2005 : N$4 242 056)
Namibia Post & Telecom Holdings Limited: N$601 371 (2005: N$247 436)

Payables to related parties:
Namibia Post Limited : N$580 838 (2005 : N$346 761)
Mobile Telecommunications Limited : N$682 314 (2005 : N$: NIL)

iv) Suretyships

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

- Suretyship for N$ 30 000 000 (2005 : N$ 30 000 000) has been provided to Standard Bank Namibia in respect of promissory notes.
- Suretyship for N$ 50 000 000 (2005 : 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.

Notes to the financial statements
for the year ended 30 September 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
40. Operating lease commitments			
The future minimum lease payments under operating lease contracts are as follows:			
- Not later than one year	33 274	33 274	29 642
- Later than one year, but not later than five years	38 089	38 089	27 579

41. 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:

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
The guarantees are:			
China Jiangsu International	139	139	139
KCC (Pty) Ltd	--	--	12
Stocks & Stocks Namibia (Pty) Ltd	25	25	--
The Supreme Court for the District of Windhoek	--	--	20
Vantage Enterprises CC	--	--	12
The Deputy Sheriff for Windhoek	107	107	--
Keibeb Construction CC	--	--	12
	271	271	195

42. Investment in subsidiary

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000
Beginning of the year	--	--	--
Acquisition of subsidiary - shares	--	9 000	--
	--	9 000	--
Loans			
Loan advanced	--	15 045	--
	--	15 045	--
Balance at end of the year	--	24 045	--

The company obtained 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 2006

	Group 2006 N$'000	Company 2006 N$'000	Company 2005 N$'000

43. Investment in associated company

Shares at cost	29 893	29 893	--
Share of results	(5 566)	--	--
Loans advanced	4 433	4 433	--
	28 760	34 326	--

Set out below is the summarised financial information of associate :

Assets	130 169	--	--
Liabilities	93 448	--	--
Revenues	316	--	--
Loss after tax	(12 651)	--	--

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

44. Loans advanced

Mkhonto We Sizewe Military Veterans Association	3 745	--	--

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

45. Intangible asset

Goodwill			
Balance at beginning of year	--	--	--
Subsidiary acquired	13 246	--	--
Balance at end of year	13 246	--	--

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

Corporate Information

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