



Annual Report 2013



Telecard Limited



Our Vision

'To be the quality telecommunications service provider of choice using sound business practices while enhancing the quality of life of the community and providing a strong return for our stakeholders'

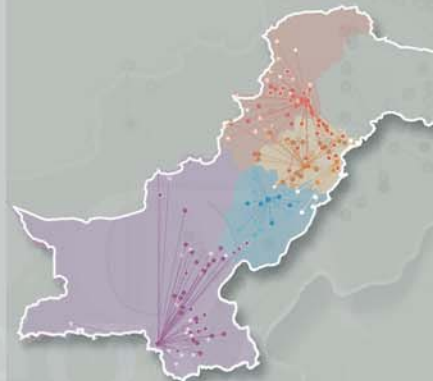


Our Mission

Our goal is to be the leading telecommunication service provider in the market and to make Telecard a name, which inspires pride and confidence. We will achieve our goal by:

- Making this company a customer driven organization providing quality telecommunication products and services which meet and exceed customer expectations.
- Valuing our employees and providing a satisfying, challenging and rewarding work environment.
- Maintaining mutually beneficial relations with our business partners.
- We instill pride of ownership and we are a financially rewarding investment for stakeholders.
- We are an exemplary corporate citizen which adds value to the community.

Our Strategy



to be everywhere
for everyone



To leverage our strong position in Pakistan's telecommunication sector and to be the first choice of the people.



Relationships

Within Reach

At Telecard, life revolves around a single goal, to bring people closer. We believe communication is the expression of life and we work endlessly to make it possible.

Telecard began its journey from a convenience-driven concept of the country's first every payphone operation. Over the years, through a synergy of a dedicated team, cutting edge technologies and uncompromised value, it has become an important part of every other Pakistani individual. Our products and services are entirely about providing effective communication with better connectivity whether it is voice or data.

Today, Telecard is a name that has become synonymous with a complete communication solution provider. We believe in eradicating hurdles to convenient communication, every step of the way. We envision a fast-paced, growing and a much more integrated society. We aim to strengthen our ties and create a world where distance has no meaning.

Growth Drivers

Strategic Direction

Our focus is to maintain our credibility through performance and reinforcing trust through consistency and strong business acumen. Telecard Limited aims to sustain its leadership position in the industry and become a dominant player in the telecom sector.

“First to Market”

We drive ourselves to deliver exciting opportunities by vigorously pursuing timelines that ensures our position as the “first to market” operator in almost all sectors of the telecom industry. We are constantly driven to create value for our service through operational excellence, cost effectiveness, capital discipline and personal accountability.



Growth Drivers

Competitive Edge

We have built our infrastructure to maintain a competitive edge over our competitors. We function as a synergized force with talented and skilled individuals, our focus being on technology and innovation to meet customer expectations. The Telecard product offerings, along with the nationwide reach and differentiated solutions to suit the customer needs are the key ingredients to enable us to sustain this competitive edge.

Value Growth

For years, Telecard's Wireless Local Loop Service has been the highlight of the telecom industry. It has helped prosper thousands of lives across the nation through provision of shared community phones in far off places. It has instilled a confidence in us that has helped us produce more and better over the years, helping us keep our long range commitments in line with our objectives and has always contributed towards sustainable development at the grass roots level.



Growth Drivers

Our Strategy in Action

We believe in constantly adding value to our dynamic portfolio. Telecard has launched a nationwide Wireless Local Loop Service based upon CDMA2000 1x technology that provide a unique combination of voice and data/internet for the first time in Pakistan.

We have partnered with a diverse set of organizations throughout the world to facilitate our Long Distance and International Calling Service. These partners include major international and regional carriers of repute.

Futuristic Approach

As part of our strategy for sustained growth, we believe in increased investment on training and development, human resource management as well as market research to keep ourselves abreast of the latest technologies and its applications. We envision ourselves as the leading Telecom Service Provider of choice and be a necessary element of every individual, household, and enterprise.

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Company Information:

| | |
|--|--|
| Board of Directors | Mr. Sultan ul Arfeen (Chairman) Mr. Shahid Firoz Mr. Shams ul Arfeen Syed Aamir Hussain (CEO) Mr. Tipu Saeed Khan Mr. Hissan ul Arfeen Mr. Waseem Ahmad |
| Board Audit Committee | Mr. Sultan ul Arfeen (Chairman) Mr. Shahid Firoz Mr. Shams ul Arfeen |
| Human Resource & Remuneration Committee | Mr. Shahid Firoz (Chairman) Mr. Shams ul Arfeen Syed Aamir Hussain |
| Chief Executive Officer | Syed Aamir Hussain |
| Legal Advisor | Mohsin Tayebaly & Co. |
| Chief Financial Officer | Mr. Tipu Saeed Khan |
| Auditors | Parker Randall-A.J.S. Chartered Accountants 901, QM House, Ellender Road, Karachi |
| Company Secretary | Mr. Waseem Ahmad |
| Bank | KASB Bank Limited Standard Chartered Bank (Pakistan) Ltd. Deutsche Bank - AG Faysal Bank Limited National Bank of Pakistan Silk Bank Limited Summit Bank Limited |
| Registrar and Share Transfer Office | Jwaffs Registrar Services Pvt Ltd. 505 5th Floor, Kashif Centre, Near Hotel Mehran Main Shahra-e- Faisal Karachi |
| Registered Office | 3rd Floor, World Trade Centre, 75 East Blue Area Fazal ul Haq Road, Islamabad, Pakistan |
| Corporate Office | 7th Floor, World Trade Centre, 10 Khayaban-e-Roomi, Clifton, Karachi. Pakistan |

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 20th Annual General Meeting of the shareholders of the Company will be held on 31 October 2013 at 1100 hours, at 3rd Floor, 75 East Blue Area, Fazal-ul-Haq Road, Islamabad to transact the following business.

Ordinary Business

1. To confirm the minutes of the last Annual General Meeting on 30 November 2012.
2. To receive, consider and adopt Annual Audited Financial Statement of the Company together with the Directors and the Auditors' report thereon for the year ended June 30 2013, together with the Audited Consolidated Financial Statements of the Company and the Auditors' report thereon for the year ended June 30 2013.
3. To appoint external auditors of the Company for the year ended June 30 2014 and fix their remuneration. Present Auditors M/s Parker Randall-A.J.S., Chartered Accountants are retiring and being eligible offer themselves for reappointment.
4. To transact any other business with the permission of the Chair.

By order of the Board

Waseem Ahmad
Company Secretary

Notes

08 October 2013

1. The Members Register will remain closed from the 25 October 2013 to 31 October 2013 (both days inclusive). Transfer received in order by Shares Registrar, Jwaffs Registrar Services (Pvt.) Limited, 505, 5th Floor, Kashif Centre, Near Hotel Mehran, Main Shahrah-e-Faisal Karachi by the close of business on 24 October 2013 will be considered in time for attending the meeting.
2. A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him/her. Proxies in-order must be received, during business hours, at the Registered Office of the Company not less than 48 hours before the time of the Meeting.
3. Shareholders whose shares are deposited with Central Depository Company (CDC) are requested to bring their Computerized National Identity Cards (CNIC) along with their CDC Account Number for verification. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
4. For attending the meeting and appointing proxies CDC account holder will further have to follow the guidelines as laid down in Circular 01 dated 26 January 2000 issued by the SECP.
5. Shareholders are requested to notify the Registrar as aforesaid of any change in their address.
6. Members who are holding share in physical folios are requested to submit a copy of their CNIC at the office of our Registrar.

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DIRECTORS' REPORT

The Directors of Telecard Limited are pleased to present the Annual Report and the audited financial statements of the Company for the year ended 30 June 2013.

Review and Current Operations

The revenue for the year was Rs. 1.81 billion compared to Rs. 1.44 billion for the corresponding period. The increase is directly attributable to the rate stabilization in the Long Distance and International segment of the Company. The decrease in the Direct Cost of the Company resulting from the reduced interconnect charges further strengthen the financial position of the Company. Consequently, the Company posted a Gross Profit of Rs. 597 million against a Gross Loss of Rs. 216 million in 2012.

The administrative and distribution cost was almost stable with a slight decrease of 2%. This year, the Company provided impairment in the value of investment for the sum of Rs. 681 million. Hence, resulting in an Operating Loss of Rs. 484 million against an Operating Loss of Rs. 612 million last year. The Finance Cost remained at a reduced level of 228 million against 275 million last year. The Net Loss for the Company was Rs. 457 million, compared to the loss of Rs. 609 million in the preceding time frame. Loss per share for the period was Rs. 1.52 compared to loss per share of Rs. 2.03 in 2012.

On a consolidated basis the total revenue was Rs. 2.93 billion against Rs. 2.52 last year resulting in net loss of Rs. 453 million in comparison with net loss of Rs. 583 million last time.

Corporate Strategy and Future Outlook

Your Company through itself and its subsidiaries, Supernet, Telecard E- Solutions (Pvt.) Limited and Telegateway (Pvt.) Limited, has established itself as an alternate service provider. It is delivering fully integrated telecommunication services which include basic wireless telephony, long-distance and international and data services.

On the cost side the Company has made significant reduction in expenses, and focus on cost optimization will continue. In addition, the management is looking at options for generating revenues from non-core areas, and to turn cost centers into profit centers. The Company has made headway in a few operating areas, and more areas will be identified in future.

Subsidiary Company

Supernet Limited performance was consistent during 2013. It posted total revenue of Rs. 1.21 billion as compared to Rs. 1.20 billion in 2012. Net profit stood at Rs. 14.81 million for the year decreased by 50% in comparison with preceding year's profit of Rs. 29.98 million owing to reduction on account of Other Income. In the second year of operations, Telecard E Solutions (Pvt.) Limited posted revenue of Rs. 33 million and Gross profit of Rs. 7.4 million in comparison to the revenue of Rs. 24 million and Gross Profit of Rs. 4.3 million last year, respectively. Telegateway Limited in the first year of its operations has posted revenue of Rs. 24 million and Gross Profit of Rs. 6.4 million, respectively.

Transfer Pricing

The Company has fully complied with the best practices on transfer pricing as contained in the listing regulations of the Stock Exchange.

Directors Declaration on Corporate and Financial Reporting Framework

The Directors confirm compliance with the corporate and financial framework of the Code of Corporate Governance for the following:

- i) The financial statements prepared by the management of Telecard Limited presents fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- ii) Proper books of accounts of Telecard Limited have been maintained.
- iii) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- iv) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- v) The system of internal control is sound in design and has been effectively implemented and monitored.
- vi) There is no doubt at all upon Telecard's ability to continue as a going concern.
- vii) There has been no material departure from the best practices of Corporate Governance as detailed in the listing Regulations.

Other Information

- i) Key operating and financial data for the last six years in summarized form is given on page 15.
- ii) There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding and have not been disclosed in the Financial Statements.

During the year, five (5) Boards of Directors meetings were held and attended as follows:

| Name of Directors | No. of Meetings Attended |
|--------------------|--------------------------|
| Sultan ul Arfeen | 5 |
| Shams ul Arfeen | 5 |
| Shahid Firoz | 5 |
| Syed Aamir Hussain | 5 |
| Hissan ul Arfeen | 4 |
| Tipu Saeed Khan | 5 |
| Waseem Ahmad | 5 |

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Consolidated Financial Statements

Consolidated Financial Statements of the Company as on 30 June 2013 are annexed.

Auditors

The present auditors, Parker Randall-A.J.S. Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

Dividends

In view of the challenges ahead, the Company has decided to retain its earnings and hence no dividend has been declared.

Pattern of Shareholding

The pattern of shareholding as on 30 June 2013 is annexed to this report.

Staff

We would like to put on record the appreciation for all staff whose dedication and commitment continue to be real asset for your Company. We sincerely thank them for their untiring effort throughout the year, and value their association.

On behalf of the Board



Syed Aamir Hussain
Chief Executive Officer

Six Year Financial Summary Financial Analysis

| | June 2013 Rupees | June 2012 Rupees | June 2011 Rupees | June 2010 Rupees | June 2009 Rupees | June 2008 Rupees |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| REVENUE- Net | 1,810,434 | 1,436,288 | 1,651,617 | 2,444,502 | 3,791,473 | 1,904,313 |
| Direct Cost | <u>(1,213,800)</u> | <u>(1,652,677)</u> | <u>(1,480,673)</u> | <u>(1,774,849)</u> | <u>(2,506,398)</u> | <u>(2,176,714)</u> |
| Gross Profit / (Loss) | 596,634 | (216,389) | 170,944 | 669,653 | 1,285,075 | (272,401) |
| Administrative and selling expenses | (410,425) | (419,630) | (392,128) | (491,129) | (622,784) | (599,979) |
| Other operating expenses | (24,684) | (20,303) | (3,298) | (58,848) | (39,748) | (63,443) |
| Provision for impairment in the value of investment & for other receivables | (680,630) | - | - | - | - | - |
| Other operating income | 34,868 | 35,235 | 70,293 | 44,757 | 69,992 | 88,687 |
| Gain on sale of intangible asset | - | - | - | 1,478,758 | - | - |
| Gain arising from present value adjustment | - | - | - | - | - | 426,196 |
| Liabilities no longer payable written back | - | 9,411 | 548,707 | 87,927 | - | - |
| | <u>(1,080,871)</u> | <u>(395,287)</u> | <u>223,574</u> | <u>1,061,465</u> | <u>(592,540)</u> | <u>(148,539)</u> |
| Operating (Loss) / Profit | <u>(484,237)</u> | <u>(611,676)</u> | <u>394,518</u> | <u>1,731,118</u> | <u>692,535</u> | <u>(420,940)</u> |
| Financial costs | (228,311) | (274,947) | (284,159) | (530,449) | (580,719) | (528,919) |
| (Loss) / Profit before taxation | <u>(712,548)</u> | <u>(886,623)</u> | <u>110,359</u> | <u>1,200,669</u> | <u>111,816</u> | <u>(949,859)</u> |
| Taxation | 255,681 | 277,643 | (35,949) | (502,207) | (56,641) | 407,323 |
| (Loss) / Profit after taxation | <u>(456,866)</u> | <u>(608,980)</u> | <u>74,410</u> | <u>698,462</u> | <u>55,175</u> | <u>(542,536)</u> |
| Accumulated Profit / (Loss) b/f | <u>(163,582)</u> | <u>445,398</u> | <u>400,988</u> | <u>(297,474)</u> | <u>(352,648)</u> | <u>189,888</u> |
| | <u>(620,448)</u> | <u>(163,582)</u> | <u>475,398</u> | <u>400,988</u> | <u>(297,474)</u> | <u>(352,648)</u> |
| Final dividends @ Rs. 0.10 per Ordinary Share of Rs. 10 each for the year ended June 30, 2010 | - | - | (30,000) | - | - | - |
| | <u>(620,448)</u> | <u>(163,582)</u> | <u>445,398</u> | <u>400,988</u> | <u>(297,474)</u> | <u>(352,648)</u> |
| (Loss) / Earning per share (Rupees) | <u>(1.52)</u> | <u>(2.03)</u> | <u>0.25</u> | <u>2.33</u> | <u>0.18</u> | <u>(1.81)</u> |

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Statement of Compliance with Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi and Islamabad Stock Exchange(s) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance. The Company has applied the principles contained in the Code of Corporate Governance in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board. At present the Board includes:

| Category | Names |
|------------------------|----------------------|
| Non-Executive Director | Mr. Sultan ul Arfeen |
| | Mr. Shahid Firoz |
| | Mr. Shams ul Arfeen |
| | Mr. Hissan ul Arfeen |
| Executive Director | Syed Aamir Hussain |
| | Mr. Tipu Saeed Khan |
| | Mr. Waseem Ahmad |
| Independent Director | _____ |

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBF1 or, being a member of Stock Exchange, has been declared as defaulter by that Stock Exchange.
4. No casual vacancy occurred during the year.
5. The Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it through the company along with its supporting policies and procedure.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the Board met at least once every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The company arranged a training/orientation course for its directors to apprise them of their duties and responsibilities, and subsequent to the balance sheet date, below mentioned are the directors who have attended the training and are now certified directors:

| Institute | Director Name |
|--|----------------------|
| Institute of Chartered Accountants of Pakistan | Mr. Hissan ul Arfeen |
| | Mr. Waseem Ahmad |

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10. No new appointments of the Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit were made during the year. However, any changes to the remuneration, terms and conditions of the employment of CFO, Company Secretary and Head of Internal Audit have been determined by the CEO through Human Resource & Remuneration Committee, with the approval of the Board of Directors.
11. The directors' report for the year has been prepared in compliance with requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO, before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding
14. The company has complied with all the corporate and financial reporting requirements of CCG.
15. The Board has formed an Audit Committee comprising of non-executive directors. Chairman of the committee is also the Chairman of the Board of Directors.
16. The meetings of the Audit Committees were held at least once every quarter prior to approval of interim and final results of the Company, and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR Committee. It comprises of three members; two of them are non-executive directors and the Chairman of the committee is a non executive director.
18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of internal/final results, and business decisions, which may materially affect the market price of the company's securities, was determined and intimated to directors, employees and stock exchange (s).
22. We confirm that all other material principles contained in the Code have been complied with.



Syed Aamir Hussain
Chief Executive Officer

08 September, 2013

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Parker Randall-A.J.S.
CHARTERED ACCOUNTANTS

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REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Telecard Limited (the Company) to comply with the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited and the Islamabad Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, the Listing Regulations require the Company to place before the Board of Directors for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended 30 June 2013.

We draw your attention to clauses 1, 9 and 15 of the Statement which mention certain non-compliance with the code.

Our conclusion is not qualified in respect of the above matters.

Chartered Accountants
Audit Engagement Partner: Muhammad Shabbir Kasbati
08 October 2013
Karachi



Parker Randall-A.J.S.
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Telecard Limited (the Company) as at 30 June 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

The financial statements as at June 30, 2012 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants. Auditor's report dated November 08, 2012 expressed a modified opinion on those financial statements.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2013 and of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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Parker Randall-A.J.S.

CHARTERED ACCOUNTANTS

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We further draw attention to the contents of:

- i) notes 14.2(a) and 14.3 to the accompanying financial statements in respect of the lawsuit filed by the Company during the year ended 30 June 2000 in the High Court of Sindh with regard to the recovery of Karachi Relief Rebate, interconnect discount and other related amounts from Pakistan Telecommunication Company Limited, pending a final decision no provision has been made in the accompanying financial statements for any amount that may not be recoverable;
- ii) note 14.2(b) to the accompanying financial statements with regard to a lawsuit filed by the PTCL against the Company during the year ended 30 June 2002. Pending a final decision, the Company has not made any provision in the accompanying financial statements for the amount claimed by the PTCL;
- iii) note 14.6 to the accompanying financial statements in respect of the Pakistan Telecommunication Authority's claim for Access Promotion Contribution for Universal Service Fund. Pending a final decision by the Supreme Court of Pakistan, no provision has been made for the remaining sum of Rs.2,342.821 million in the accompanying financial statements;
- iv) notes 30.1 to 30.12 to the accompanying financial statements in respect of contingencies the ultimate outcome of which cannot presently be determined and, hence, pending the resolution thereof, no provision has been made in the accompanying financial statements for any liability that may arise there from;
- v) note 13.1 to the accompanying financial statements in respect of mark-up claimed by the Company from a commercial bank which has been accrued by the Company in the accompanying financial statements. Pending a final decision in this matter, no provision has been made in the accompanying financial statements there against;
- vi) note 23.2 to the accompanying financial statements in respect of Spectrum Fee payable, shown under deferred liabilities, as a result of the appeal instituted by the Company in the Islamabad High Court during the current year; and
- vii) note 7.1 to the accompanying financial statements concerning the full provision for impairment in the value of investment.

Our opinion is not qualified in respect of the above matters.

Chartered Accountants

Audit Engagement Partner: Muhammad Shabbir Kasbati

Date: 08 October 2013

Place: Karachi

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BALANCE SHEET
AS AT JUNE 30, 2013

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|-------------------------|-------------------------|
| ----- (Rupees in '000') ----- | | | |
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | 5 | 1,378,475 | 1,770,295 |
| Intangible assets | 6 | 1,996,809 | 2,178,326 |
| | | <u>3,375,284</u> | <u>3,948,621</u> |
| Long-term Investments | 7 | 341,137 | 821,767 |
| Long-term deposits | 8 | 53,456 | 53,275 |
| Deferred taxation | 9 | 366,672 | 101,938 |
| | | <u>4,136,549</u> | <u>4,925,601</u> |
| CURRENT ASSETS | | | |
| Stock-in-trade | 10 | 628 | 581 |
| Trade debts | 11 | 224,153 | 132,695 |
| Loans and advances | 12 | 20,635 | 16,456 |
| Deposits and prepayments | 13 | 99,729 | 21,059 |
| Accrued mark-up | 14 | 69,462 | 64,139 |
| Other receivables | 15 | 3,475,933 | 3,516,703 |
| Taxation – net | 16 | 95,019 | 93,626 |
| Bank balances | 16 | 22,826 | 5,599 |
| | | <u>4,008,385</u> | <u>3,850,858</u> |
| TOTAL ASSETS | | <u>8,144,934</u> | <u>8,776,459</u> |
| EQUITY AND LIABILITIES | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Share capital | | | |
| Authorised | | | |
| 400,000,000 (2012: 400,000,000) Ordinary shares of Rs.10 each | | 4,000,000 | 4,000,000 |
| Issued, subscribed and paid-up | 17 | 3,000,000 | 3,000,000 |
| Unappropriated loss | | (620,448) | (163,582) |
| | | <u>2,379,552</u> | <u>2,836,418</u> |
| NON-CURRENT LIABILITIES | | | |
| Long-term loans | 18 | 154,104 | 304,167 |
| Advance from a Subsidiary | 19 | 97,482 | 51,274 |
| Redeemable capital | 20 | 520,380 | 776,160 |
| Due to a Contractor | 21 | 835,687 | 896,182 |
| Long-term deposits | 22 | 63,611 | 61,737 |
| Deferred liabilities | 23 | 1,593,626 | 1,590,594 |
| Accrued mark-up | 24 | 45,881 | 68,433 |
| | | <u>3,310,771</u> | <u>3,748,547</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 25 | 1,403,399 | 1,525,775 |
| Accrued interest / mark-up | 26 | 265,262 | 163,795 |
| Short-term running finances | 27 | 190,621 | 224,855 |
| Short-term borrowing | 28 | 170,871 | 137,371 |
| Current maturities of long-term liabilities | 29 | 424,458 | 139,698 |
| | | <u>2,454,611</u> | <u>2,191,494</u> |
| Contingencies and commitments | 30 | - | - |
| TOTAL EQUITY AND LIABILITIES | | <u>8,144,934</u> | <u>8,776,459</u> |

The annexed notes from 1 to 48 form an integral part of these financial statements.



Chief Executive



Director

2013 ANNUAL REPORT**PROFIT AND LOSS ACCOUNT**
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| REVENUE – net | 31 | 1,810,434 | 1,436,288 |
| Direct costs | 32 | 1,213,800 | 1,652,677 |
| Gross profit/(loss) | | 596,634 | (216,389) |
| Distribution costs and administrative expenses | 33 | 410,425 | 419,630 |
| Other operating expenses | 34 | 24,684 | 20,303 |
| Provision for impairment in the value of investment & for other receivables | 35 | 680,630 | - |
| | | 1,115,739 | 439,933 |
| Other income | 36 | (34,868) | (44,646) |
| | | 1,080,871 | 395,287 |
| Operating loss | | (484,237) | (611,676) |
| Finance costs | 37 | 228,311 | 274,947 |
| Loss before taxation | | (712,548) | (886,623) |
| Taxation | 38 | 255,682 | 277,643 |
| Loss for the year | | (456,866) | (608,980) |
| Loss per share - basic and diluted (Rupees) | 39 | (1.52) | (2.03) |

The annexed notes from 1 to 48 form an integral part of these financial statements.



Chief Executive



Director


STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

| | June 30, 2013 | June 30, 2012 |
|---------------------------------|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |
| Loss for the year | (456,866) | (608,980) |
| Other comprehensive income | - | - |
| Total comprehensive loss | <u>(456,866)</u> | <u>(608,980)</u> |

The annexed notes from 1 to 48 form an integral part of these financial statements.



Chief Executive



Director

2013 ANNUAL REPORT**CASH FLOW STATEMENT**

FOR THE YEAR ENDED JUNE 30, 2013

| | Note | June 30, 2013 | June 30, 2012 |
|---|-----------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 40 | 311,396 | 204,606 |
| Income tax adjusted | | (10,445) | 12,304 |
| Finance costs paid | | (146,206) | (152,960) |
| Retirement benefits paid | | (4,112) | (3,865) |
| Long-term loans | | 25 | 218 |
| Due to employees | | - | (8,762) |
| Liability for long-term deposits | | 1,874 | 2,092 |
| Long-term deposits | | (181) | (362) |
| Net cash generated from operating activities | | 152,351 | 53,271 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditure | | (9,437) | (10,666) |
| Dividend income received | | 9,017 | - |
| Long-term investments | | - | (500) |
| Proceeds from disposal of property, plant and equipment | | 1,400 | 2,180 |
| Net cash generated from/(used in) investing activities | | 980 | (8,986) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of redeemable capital | | (425) | (980) |
| Advance from a contractor | | (60,495) | (51,569) |
| Advance from a subsidiary | | (27,792) | (96,650) |
| (Repayment)/proceed of long-term finances | | (98,500) | 32,347 |
| Proceed of short-term borrowings | | 98,500 | 137,371 |
| (Repayment) of short-term running finances | | (34,234) | (67,880) |
| Repayment of obligations under finance lease | | (13,158) | (151) |
| Net cash used in financing activities | | (136,104) | (47,512) |
| Net increase/(decrease) in cash and cash equivalents | | 17,227 | (3,227) |
| Cash and cash equivalents at the beginning of the year | | 5,599 | 8,826 |
| Cash and cash equivalents at the end of the year | 16 | 22,826 | 5,599 |

The annexed notes from 1 to 48 form an integral part of these financial statements.



Chief Executive



Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2013

| | Issued, subscribed paid-up capital | Un- appropriated Unappropriated profit/ (loss) | Total |
|------------------------------------|---|--|-----------|
| ----- (Rupees in '000') ----- | | | |
| Balance as at June 30, 2011 | 3,000,000 | 445,398 | 3,445,398 |
| Net loss for the year | - | (608,980) | (608,980) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss | - | (608,980) | (608,980) |
| Balance as at June 30, 2012 | 3,000,000 | (163,582) | 2,836,418 |
| Net loss for the year | - | (456,866) | (456,866) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss | - | (456,866) | (456,866) |
| Balance as at June 30, 2013 | 3,000,000 | (620,448) | 2,379,552 |

The annexed notes from 1 to 48 form an integral part of these financial statements.


Chief Executive


Director

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. THE COMPANY AND ITS OPERATIONS

Telecard Limited (the Company) was incorporated in Pakistan on October 29, 1992 as a public limited company. The shares of the Company are listed on the Karachi and Islamabad Stock Exchanges. The Company itself and through its subsidiary is licensed to provide fully integrated telecommunication services, including basic wireless telephony, long distance and international services and payphones.

The registered office of the Company is located at World Trade Centre 75-East Blue Area, Fazal-ul-Haq road, Islamabad. The principal place of business of the Company is located at World Trade Centre, 10- Khayaban-e -Roomi, Clifton, Karachi.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 These are the separate financial statements of Company in which investment in subsidiaries are reported on the basis of direct equity interest and are not consolidated.

3. BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention except for certain employees' benefits and liabilities which have been carried at present value (note 23).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Standards, interpretations and amendments to published approved accounting standards that are not yet effective and have not been early adopted by the Company.

The following revised standards and interpretations with respect to approved accounting standards would be effective from the dates mentioned below against the respective standards or interpretations:

| Standard or interpretation | Effective date (accounting periods beginning on or after) |
|---|---|
| IFRS 7 Financial instruments: Disclosures (Amendments) | January 1, 2013 |
| IAS 1 Presentation of financial statements (Amendments) | January 1, 2013 |
| IAS 16 Property, Plant and Equipment (Amendments) | January 1, 2013 |
| IAS 19 Employee Benefits (Amendments) | January 1, 2013 |
| IAS 27 Separate Financial Statements (Revised) | January 1, 2013 |
| IAS 28 Investments in Associates and Joint Venture (Revised) | January 1, 2013 |
| IAS 32 Financial instruments: Presentation (Amendments) | January 1, 2013 & 2014 |
| IAS 34 Interim Financial Reporting (Amendments) | January 1, 2013 |
| IAS 36 Impairment of assets (Amendments) | January 1, 2014 |
| IAS 39 Financial instruments : Recognition and measurement (Amendments) | January 1, 2014 |

The Company expects that, except for the effects on the financial statements of amendments to IAS 19 "Employee Benefits" the adoption of the above standards and interpretations will not have any material impact on the Company's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan for the purpose of applicability in Pakistan.

| | IASB effective date (accounting periods beginning standards on or after) |
|--|---|
| IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendments) | July 1, 2009 |
| IFRS 9 Financial Instruments: Classification and Measurement | January 1, 2015 |
| IFRS 10 Consolidated Financial Statements | January 1, 2013 |
| IFRS 11 Joint Arrangements | January 1, 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | January 1, 2013 |
| IFRS 13 Fair Value Measurement | January 1, 2013 |
| IFRIC 21 Levies | January 1, 2014 |

The following interpretations issued by the IASB have been waived off by the SECP, effective January 16, 2012:

IFRIC 4 Determining Whether an Arrangement Contains a Lease
IFRIC 12 Service Concession Arrangements

4.2 Standards, amendments and interpretations adopted during the year

There are no amended standards and interpretations that are effective for the first time in the current year that would be expected to have a material impact on the Company.

4.3 Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions in accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

| | Note |
|--|------------------|
| Determining the residual values and useful lives of fixed assets | 4.4, 5 & 6 |
| Impairment of; | |
| > Fixed assets | 4.4, 5 & 6 |
| > Long term investments | 4.5 & 7 |
| > Trade debts and other receivable | 4.7, 10 & 14 |
| Accounting for staff retirement benefits | 4.14 & 23.1 |
| Recognition of tax and deferred tax | 4.15, 9, 15 & 38 |

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4.4 Fixed assets

4.4.1 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land, which is stated at cost.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. The rates used are stated in note 5.1 to the financial statements.

In respect of additions and deletions of assets during the year, depreciation is charged for the month of acquisition and up to the month preceding the deletion, respectively.

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are charged to statement of comprehensive income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is recognized, except for gain on sale and leaseback transactions, which is deferred and amortized over the lease term of the asset.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

Leased

Assets held under finance leases are initially recorded at the lower of the present value of minimum lease payments under the lease agreements and the fair value of the leased assets. The related obligations under the leases less financial charges allocated to future periods are shown as a liability.

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability.

Depreciation is charged at the same rates as charged on the Company's owned assets.

Capital work-in-progress

Capital work-in-progress is stated at cost less impairment in value, if any. It consists of expenditure incurred and advances made in respect of fixed assets in the course of their erection, installation and acquisition.

4.4.2 Intangible assets

The costs of license to provide telecommunication services are classified as intangible. These are stated at cost less accumulated amortization and impairment, if any. These are amortized over the period of license commencing from the date when the license is available for intended use i.e. the date when it is in the condition necessary for it to be capable of operating in the manner intended by the management.

4.4.3 Impairment

The carrying values of the Company's assets are reviewed for impairment at each reporting date when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

4.5 Investments

Subsidiary companies

Investment in a Subsidiary Companies are stated at cost less impairment, if any. An assessment is made at each balance sheet date to determine whether there is any indication that an investment may be impaired. If such indication exists, the estimated recoverable amount of the investment is determined and any impairment loss is recognized for the difference between the recoverable amount and the carrying value.

Available for sale

These are initially measured at fair value plus directly attributable transaction costs and are subsequently for -sale reserve until (i) the investment is derecognized, at which time the cumulative gain or loss is recognized in the profit and loss account, or (ii) determined to be impaired, at which time the cumulative loss is recognized in the profit and loss account.

For investments traded in active market, fair value is determined by reference to quoted market price and the investments for which quoted market is not available, or the fair value cannot be reasonably calculated, are measured at cost, subject to impairment review at each balance sheet date.

4.6 Stock in trade

Stock in trade comprises of internet and voice communication cards. These are valued at lower of cost and net realizable value. Cost is determined on first-in-first out basis except for stock in transit which is stated at invoice price plus other charges paid thereon up to the balance sheet date.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

4.7 Trade debts and other receivables

These are recognized and carried at original invoice amount less an allowance for any uncollectible amounts, if any. An estimate for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written-off when identified.

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4.8 Loans, advances and deposits

These are recognized at cost, which is the fair value of the consideration given. However, an assessment is made at each balance sheet date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such indication exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for the difference between the recoverable amount and the carrying value.

4.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash and cheques in hand, balances with banks and short-term investments, if any.

4.10 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

4.11 Provisions

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

4.12 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized at the time when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized at the time when they are extinguished i.e., when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on derecognition of financial assets and financial liabilities are taken to profit and loss account currently.

4.13 Offsetting financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.14 Employees' benefits

Gratuity fund

The Company operates an unfunded gratuity scheme for its employees under "Workmen Category". Provision is made annually, to cover obligations under the plan, by way of a charge to profit and loss account, calculated in accordance with the actuarial valuation using "Projected Unit Credit Method". Actuarial gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Provident fund

The Company operates a recognized provident fund scheme for its employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 8.33% of basic salary.

Compensated absences

The Company accounts for these benefits in the period in which the absences are earned. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

4.15 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, in accordance with the Income Tax Ordinance, 2001. The tax charge as calculated above is compared with turnover tax under Section 113 of the Income Tax Ordinance, 2001, and whichever is higher is provided in the financial statements.

Deferred

Deferred tax is recognized, using the liability method, on all major temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the assets can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

4.16 Foreign currency translation

The financial statements are presented in Pak Rupee, which is the Company's functional and presentation currency. Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the spot rates of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities are measured using exchange rates that existed when the values were determined. All differences are taken to the profit and loss account.

4.17 Borrowing costs

Finance costs incurred to finance the acquisition of various licenses from Pakistan Telecommunication Authority (PTA) and the construction and installation of network assets are capitalized up to the time such assets get ready for intended use. All other borrowing costs are recognized as expense in the period in which they are incurred.

2013 ANNUAL REPORT**4.18 Revenue**

Revenue from wireless payphone cards is recognized as the related units/credits are consumed by customers. The unutilized units/credits are carried in the balance sheet as unearned income.

Revenue from prepaid and post paid packages is recognized on accrual basis.

Revenue from connection fee is recognized on sale of connections.

Revenue from Long Distance International (LDI) license is recognized at the time the call is terminated over the Company's network in case of international incoming calls and when the calls are handed over to international operators in case of outgoing calls.

In case of sharing arrangements with local operators, proportionate share is recognized at the time of termination of calls on designated operator's network.

Return on bank balances is accrued using effective interest method.

4.19 Interconnect charges and liability

Interconnect charges on all units / credits consumed in respect of wireless payphones are booked as liability on the basis of corresponding bills from interconnect partners except for the cases where management believes, based on its information system and records, that interconnect charges are over billed by the interconnect partners, in which case the liability is recorded on the basis of the Company's information system and records.

4.20 Dividend and other appropriation of reserves

Dividends and appropriation to general reserves are recognized in the financial statements in the period in which these are approved.

| Note | June 30, 2013 | June 30, 2012 |
|------|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |

5. PROPERTY, PLANT AND EQUIPMENT

| | | | |
|--------------------------|-----|------------------|------------------|
| Operating fixed assets | 5.1 | 900,481 | 1,228,126 |
| Capital work-in-progress | 5.2 | 477,994 | 542,169 |
| | | <u>1,378,475</u> | <u>1,770,295</u> |

5.1 Operating fixed assets

| Note | Cost | | | Accumulated depreciation | | | W.D.V. As at June 30, 2013 | Depreciation rate per annum |
|--|---------------------------|---------------------------|---------------------------|--------------------------|----------------------------------|---------------------------|-------------------------------------|-----------------------------------|
| | As at July 01, 2012 | As at June 30, 2013 | As at July 01, 2012 | For the year | (On disposals/ transfers*) | As at June 30, 2013 | | |
| (Rs. in '000) | | | | | | | | |
| June 30, 2013 | | | | | | | | |
| Owned | | | | | | | | |
| | 3,020 | - | - | 3,020 | - | - | 3,020 | - |
| Freehold land | | | | | | | | |
| | 625 | - | - | 625 | 344 | 31 | 375 | 5% |
| Building on freehold land | | | | | | | | |
| | 5,512,538 | 4,303 | - | 5,648,539 | 4,326,396 | 319,000 | 4,767,483 | 5-33% |
| Apparatus, plant and equipment | 131,698* | | | | | 122,087* | 881,056 | |
| | 30,875 | - | - | 30,875 | - | - | 30,875 | 25% |
| Sign boards | | | | | | | | |
| | 45,518 | 33 | - | 45,551 | 33,485 | 3,114 | 36,599 | 10% |
| Furniture, fixtures and office equipment | | | | | | | | |
| | 60,783 | 3,198 | - | 63,981 | 56,578 | 3,173 | 59,751 | 33% |
| Computers and related accessories | | | | | | | | |
| | 25,925 | 1,904 | (1,640) | 27,891 | 24,057 | 799 | 24,918 | 20% |
| Vehicles | 5,679,284 | 9,438 | (1,640) | 5,820,482 | 4,471,735 | 326,117 | 4,920,001 | |
| | 133,400* | | | | | 123,789* | 900,481 | |
| Leased | | | | | | | | |
| | 131,698 | - | - | 131,698 | 111,121 | 10,966 | - | 10-33% |
| Apparatus, plant and equipment | (131,698)* | | | | | (122,087)* | - | |
| | 1,702 | - | - | 1,702 | - | - | - | 20% |
| Vehicles | (1,702)* | | | | | (1,702)* | - | |
| | 133,400 | (133,400) | - | - | 112,823 | 10,966 | 10,966 | |
| | 5,812,684 | 9,438 | (1,640) | 5,820,482 | 4,584,558 | 337,083 | 4,920,001 | |

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| Note | Cost | | | | Accumulated depreciation | | | W.D.V. As at June 30, 2012 | Depreciation rate per annum |
|--|---------------------------|--|---------------------------|---------------------------|--------------------------|----------------------------------|---------------------------|-------------------------------------|-----------------------------------|
| | As at July 01, 2011 | Additions/ Transfers (derecognition) | As at June 30, 2012 | As at July 01, 2011 | For the year | (On disposals/ transfers*) | As at June 30, 2012 | | |
| (Rs. in '000) | | | | | | | | | |
| Owned | | | | | | | | | |
| | 3,020 | - | 3,020 | - | - | - | - | 3,020 | - |
| Freehold land | | | | | | | | | |
| | 3,900 | (3,900) | - | 3,900 | - | (3,900) | - | - | 7.70% |
| Leasehold land | | | | | | | | | |
| | 625 | - | 625 | 311 | 33 | - | 344 | 281 | 5% |
| Building on freehold land | | | | | | | | | |
| Apparatus, plant and equipment | 5,499,744 | 12,794 | 5,512,538 | 3,976,939 | 349,457 | - | 4,326,396 | 1,186,142 | 5-33% |
| Sign boards | 30,875 | - | 30,875 | 30,875 | - | - | 30,875 | - | 25% |
| Furniture, fixtures and office equipment | 45,439 | 79 | 45,518 | 30,247 | 3,238 | - | 33,485 | 12,033 | 10% |
| Computers and related accessories | 58,579 | 2,204 | 60,783 | 52,046 | 4,532 | - | 56,578 | 4,205 | 33% |
| Vehicles | 26,355 | (2,070) | 25,925 | 23,423 | 889 | (1,895) | 24,057 | 1,868 | 20% |
| | <u>5,668,537</u> | <u>15,077</u> | <u>5,679,284</u> | <u>4,117,741</u> | <u>358,149</u> | <u>(4,155)</u> | <u>4,471,735</u> | <u>1,207,549</u> | |
| | | <u>1,640</u> | | | | <u>1,640</u> | | | |
| | | <u>1,640</u> | | | | | | | |
| Leased | | | | | | | | | |
| Apparatus, plant and equipment | 5.1.1 | 131,698 | - | 131,698 | 99,360 | 11,761 | 111,121 | 20,577 | 10-33% |
| Vehicles | | 3,342 | - | 3,342 | 3,017 | 325 | 1,702 | 1,640 | 20% |
| | | <u>1,640</u> | | <u>(1,640)</u> | | <u>(1,640)</u> | | <u>(1,640)</u> | |
| | | <u>135,040</u> | | <u>133,400</u> | <u>102,377</u> | <u>12,086</u> | <u>112,823</u> | <u>20,577</u> | |
| | | <u>5,803,577</u> | | <u>5,812,684</u> | <u>4,220,118</u> | <u>370,235</u> | <u>4,584,558</u> | <u>1,228,126</u> | |
| | | | | | | | | | |

5.1.1 These include:

5.1.1.1 The cost of fully depreciated assets as at June 30, 2013 is Rs. 4,729.005 (2012: Rs. 2,358.600) million.

5.1.1.2 The following assets were disposed off during the year.

| Description | Cost | Accumulated depreciation | W.D.V | Sale proceeds | Gain/ (loss) on disposal | Mode of sale | Particulars of buyer |
|----------------------|-------------------|--------------------------|----------|---------------|--------------------------|--------------|---------------------------|
| | (Rupees in '000') | | | | | | |
| Vehicles | | | | | | | |
| Honda Civic | 1,640 | 1,640 | - | 1,400 | 1,400 | Negotiation | M.Haseeb Siddiqui Karachi |
| June 30, 2013 | 1,640 | 1,640 | - | 1,400 | 1,400 | | |

| | | |
|------|-------------------------------|---------------|
| Note | June 30, 2013 | June 30, 2012 |
| | ----- (Rupees in '000') ----- | |

5.1.2 Depreciation for the year has been allocated as follows:

| | | | |
|--|----|----------------|----------------|
| Direct costs | 32 | 329,883 | 361,125 |
| Distribution costs and administrative expenses | 33 | 7,200 | 9,110 |
| | | <u>337,083</u> | <u>370,235</u> |

| | | | |
|--|-------------------------------|-----------------------|-------|
| | Owned equipment | Advances to suppliers | Total |
| | ----- (Rupees in '000') ----- | | |

5.2 Capital work-in-progress

| | | | |
|------------------------------------|----------------|---------------|----------------|
| As at July 01, 2012 | 517,084 | 25,085 | 542,169 |
| Transferred to profit and loss a/c | (39,090) | (25,085) | (64,175) |
| June 30, 2013 | <u>477,994</u> | <u>-</u> | <u>477,994</u> |
| June 30, 2012 | <u>517,084</u> | <u>25,085</u> | <u>542,169</u> |

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6. INTANGIBLE ASSETS

| Note | Cost | | | Accumulated depreciation | | W.D.V. as at June 30, 2013 | Depreciation rate per annum % |
|----------------------|---------------------------|---------------------|--------------------------|--------------------------|----------------------------|----------------------------|-------------------------------|
| | As at July 01, 2012 | As at June 30, 2013 | Disposal during the year | As at July 01, 2012 | For the year (On disposal) | | |
| | ----- (Rs. in '000) ----- | | | | | | |
| 6.1 | 3,345,096 | 3,345,096 | - | 1,185,479 | 179,969 | 1,365,448 | 16-20 |
| 6.2 | 29,029 | 29,029 | - | 10,320 | 1,548 | 11,868 | 18-20 |
| June 30, 2013 | 3,374,125 | 3,374,125 | - | 1,195,799 | 181,517 | 1,377,316 | 1,996,809 |

| Note | Cost | | | Accumulated depreciation | | W.D.V. as at June 30, 2012 | Depreciation rate per annum % |
|----------------------|---------------------------|---------------------|--------------------------|--------------------------|----------------------------|----------------------------|-------------------------------|
| | As at July 01, 2011 | As at June 30, 2012 | Disposal during the year | As at July 01, 2011 | For the year (On disposal) | | |
| | ----- (Rs. in '000) ----- | | | | | | |
| 6.1 | 3,345,096 | 3,345,096 | - | 1,005,510 | 179,969 | 1,185,479 | 16-20 |
| 6.2 | 29,029 | 29,029 | - | 8,772 | 1,548 | 10,320 | 18,709 |
| June 30, 2012 | 3,374,125 | 3,374,125 | - | 1,014,282 | 181,517 | 1,195,799 | 2,178,326 |

6.1 These represent cost of non-exclusive licenses granted by the PTA to the Company for providing certain telecommunication services in the specified regions of the country and for establishing, maintaining and operating a telecommunication system, in accordance with the terms and conditions of the licenses. The licenses are effective for a period of 16-20 years, commencing August 04, 2004.

6.2 This represents cost of non-exclusive license granted by the PTA to the Company for providing the LDI telecommunication services in the country for an effective period 18-20 years, commencing July 27, 2004.

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 |
|--|------|---|------------------|
| 7. LONG TERM INVESTMENT | | | |
| In a wholly owned subsidiary company - unquoted (at cost) | | | |
| Supernet Limited | | 340,537 | 340,537 |
| 38,771,690 (2012: 38,771,690) ordinary shares of Rs.10 each [breakup value: Rs.16.51 (2012: Rs.16.36 per share)], based on the audited financial statements of the Company for the year ended June 30, 2013. | | | |
| TCL Asia (UK) Ltd | | - | - |
| 1 (2012: 1) ordinary share of £1 (equivalent to Rs.150.57) [breakup value: Nil (2012: Rs.147)], based on the unaudited financial statements of the company for the year ended May 31, 2013. | | | |
| Telecard E-Solutions (Pvt) Ltd | | 100 | 100 |
| 10,000 (2012: 10,000) ordinary shares of Rs.10 each [breakup value: Rs. Nil (2012: Rs. Nil)], based on the audited financial statements of the Company for the year ended June 30, 2013. | | | |
| Telegateway Limited | | 500 | 500 |
| 50,000 (2012:50,000) ordinary shares of Rs. 10 each [breakup value: Rs. Nil (2012:0.929)], based on the audited financial statements of the Company for the year ended June 30, 2013. | | | |
| Available for sale | | | |
| Augere Holdings (Netherlands) B.V. | 7.1 | 480,630 | 480,630 |
| Provision for impairment in value of investment | 35 | (480,630) | - |
| | | - | 480,630 |
| | | 341,137 | 821,767 |
| 7.1 Pursuant to an "Amended and Restated Network Agreement" dated April 26, 2010, the Company, during the year ended June 30, 2012, received class 'A' Preference Ordinary shares of Augere Holdings (Netherlands) B.V. amounting to US\$5.305 (2012: US\$ 5.305 equivalent to Rs.480.630) million, against issuance of a Credit Note which requires the Company to provide services to Augere Pakistan (Private) Limited, a subsidiary of the investee company. However, the fair value of such investment could not be determined for the purpose of initial recognition as required under IAS - 39 "Financial Instruments: Recognition and Measurement". In the absence of any information about the financial health of the company, the management does not expect any earning and cash flow in foreseeable future from the investment therefore as a matter of prudence, during the year management has made full provision for impairment against the above investment (2012: Nil). | | | |
| 8. LONG-TERM DEPOSITS | | | |
| Security deposits | | | |
| Line deposits – PTCL | | 45,778 | 47,597 |
| Rented premises | | 5,678 | 5,678 |
| Others | | 2,000 | - |
| | | 53,456 | 53,275 |
| 9. DEFERRED TAXATION | | | |
| Deferred tax credits arising on: | | | |
| Accelerated tax depreciation | | (74,836) | (144,428) |
| Amortization of intangible assets | | (376,002) | (315,778) |
| Leases | | - | (7,202) |
| | | (450,838) | (467,408) |

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| | Note | June 30, 2013 | June 30, 2012 |
|---|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| Deferred tax debits arising from: | | | |
| Retirement benefits | | 2,844 | 1,783 |
| Provisions | | 343,898 | 95,247 |
| Carry forward tax losses | | 470,768 | 472,316 |
| | | <u>817,510</u> | <u>569,346</u> |
| | | <u>366,672</u> | <u>101,938</u> |
| 10. TRADE DEBTS | | | |
| Unsecured - considered good | | | |
| Related parties | | 5,331 | 2,487 |
| Others | | 218,822 | 130,208 |
| | | <u>224,153</u> | <u>132,695</u> |
| Considered doubtful | | | |
| Considered doubtful | | 204,732 | 204,732 |
| Provision for debts considered doubtful | 10.1 | (204,732) | (204,732) |
| | | <u>-</u> | <u>-</u> |
| | | <u>224,153</u> | <u>132,695</u> |
| 10.1 Provision for debts considered doubtful | | | |
| Opening balance | | <u>204,732</u> | <u>204,732</u> |

10.2 As at June 30, 2013, the aging analysis of unimpaired trade debts is as follows:

| | Total | Past due but not impaired | | Above one year |
|-------------------------------|----------------|-------------------------------------|-------------------------------------|-------------------|
| | | Neither past due nor impaired | > Three months up to one year | |
| ----- (Rupees in '000') ----- | | | | |
| Others | 218,822 | 32,929 | 153,931 | 31,962 |
| Related parties | 5,331 | 910 | 2,744 | 1,677 |
| June 30, 2013 | <u>224,153</u> | <u>33,839</u> | <u>156,675</u> | <u>33,639</u> |
| Others | 130,208 | 87,232 | 20,933 | 22,043 |
| Related parties | 2,487 | 186 | 507 | 1,794 |
| June 30, 2012 | <u>132,695</u> | <u>87,418</u> | <u>21,440</u> | <u>23,837</u> |

11. LOANS AND ADVANCES

Loans - unsecured (considered good)

Employees - 25

Advances – unsecured (considered good)

| | | | |
|------------|------|---------------|---------------|
| Executives | 11.1 | 3,282 | 3,092 |
| Employees | | 5,972 | 4,214 |
| Suppliers | | 11,381 | 9,125 |
| | | <u>20,635</u> | <u>16,431</u> |

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 ----- (Rupees in '000') ----- |
|---|---------------|---|---|
| Considered doubtful | | | |
| Executives | | 626 | 626 |
| Employees | | 967 | 967 |
| Suppliers | | 10,054 | 10,054 |
| | | <u>11,647</u> | <u>11,647</u> |
| Provision for advances considered doubtful | 11.2 | <u>(11,647)</u> | <u>(11,647)</u> |
| | | <u>20,635</u> | <u>16,456</u> |
| 11.1 The maximum aggregate amount due from the executives at the end of any month during the year was Rs.4.553 (2012: Rs.3.238) million. | | | |
| 11.2 Provision for advances considered doubtful | | | |
| Opening balance | | <u>11,647</u> | <u>11,647</u> |
| 12. DEPOSITS AND PREPAYMENT | | | |
| Deposits | | | |
| Current portion of long-term lease deposits | | - | 13,158 |
| Others | | 551 | 480 |
| | | <u>551</u> | <u>13,638</u> |
| Prepayment | | | |
| Rent | | 12,504 | 7,421 |
| International Traffic Monitoring System | | 86,674 | - |
| | | <u>99,729</u> | <u>21,059</u> |
| 13. ACCRUED MARK-UP | | | |
| Due from a bank | 13.1 | 48,587 | 48,587 |
| Mark-up on current accounts with related parties | 13.2 & 14.1.1 | 20,875 | 15,552 |
| | | <u>69,462</u> | <u>64,139</u> |
| 13.1 This represents amount due from a commercial bank in respect of funds raised through Term Finance Certificates, held by the said bank since April 20, 2005 whereas mark-up paid to the Company, commenced August 01, 2005. A claim in respect of the above was lodged by the Company with the bank during the year ended June 30, 2005, which is pending settlement therewith. The management is currently making necessary efforts to recover the aforesaid mark-up and is, therefore, confident about the recovery of the same. | | | |
| Further, during the year ended June 30, 2008, an additional claim of Rs.194.494 million was lodged by the Company with the said bank as compensation for delay in the receipt of the above referred amount. However, the management has not accrued the same in these financial statements as a matter of prudence. | | | |
| 13.2 Related parties | | | |
| Instaphone (Private) Limited | | 1,222 | 765 |
| Instaphone Infrastructure (Private) Limited | | 6,205 | 6,355 |
| Arfeen International (Private) Limited | | 13,448 | 8,432 |
| | | <u>20,875</u> | <u>15,552</u> |

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| | Note | June 30, 2013 | June 30, 2012 |
|---|--------------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 14. OTHER RECEIVABLES | | | |
| Considered good | | | |
| Related parties | 14.1 | <u>14,189</u> | <u>28,191</u> |
| Others | | | |
| Pakistan Telecommunication Company Limited | | | |
| Karachi Relief Rebate | 14.2 | 651,541 | 651,541 |
| Interconnect discount | 14.3 | 28,701 | 28,701 |
| WPS - under protest payments | 25.1 | 289,725 | 289,725 |
| Leased lines and upfront connection charges | 14.4 | 131,517 | 131,517 |
| LL & LDI charges – under protest payments | 14.5 | - | 200,000 |
| Wire line | 14.2(a) | 48,712 | 48,712 |
| Multi-metering | 14.2(a) | 18,287 | 18,287 |
| | | 1,168,483 | 1,368,483 |
| Amount withheld by PTCL against PTA-Escrow | | 171,446 | - |
| Pakistan Telecommunication Authority | 14.6 | 2,115,921 | 2,115,921 |
| Claim against a bank | 14.7 | 998 | 998 |
| Insurance claims | 14.8 | 2,325 | 2,325 |
| Due from a contractor | | 2,571 | 785 |
| | | 2,293,261 | 2,120,029 |
| Considered doubtful | | | |
| Due from PTCL | 14.9 | 10,361 | 10,361 |
| Insurance Claim | | 8,628 | 8,628 |
| LL & LDI charges – under protest payments | 14.5 & 14.10 | 200,000 | - |
| Due from zonal employees | | 15,874 | 15,874 |
| Others | | 2,952 | 2,952 |
| | | 237,815 | 37,815 |
| Provision for other receivables considered doubtful | 14.10 | (237,815) | (37,815) |
| | | - | - |
| | | 3,475,933 | 3,516,703 |
| 14.1 Related parties | | | |
| Supernet Limited | | 10,704 | 4,374 |
| Instaphone (Private) Limited | | 3,049 | 3,049 |
| Envicrete Limited | | 322 | 170 |
| TCL Asia (UK) Limited | | 86 | - |
| Grand Leisure Corporation (Private) Limited | | 28 | 28 |
| Arfeen International (Private) Limited | | - | 6,003 |
| Instaphone Infrastructure (Private) Limited | | - | 14,455 |
| Telegateway Limited | | - | 112 |
| | | 14,189 | 28,191 |

14.1.1 The above amounts due from related parties represent current account balances which are recoverable on demand. These carry mark-up at the rate of 6 months KIBOR plus 3.5% (2012: 6 months KIBOR plus 3.5%) per annum (note 13).

14.2(a) In the interest of public safety, the Government of Pakistan (GoP) is empowered to close transmission of all messages/services, subject to certain conditions. Section 54 of the Pakistan Telecommunication (Reorganisation) Act 1996, states that the GoP can do so "provided that the GoP may compensate any licensee whose facilities or services are affected by any action under that section". Under these powers, the GoP shut down the service of the Company from July 1995 to January 1997. The Company served a notice to the GoP for compensation and as a quid pro quo and in consideration of the Company having agreed to withdraw its claim, the GoP offered the Karachi Relief Rebate Package. This arrangement was duly approved by the Cabinet and announced, on behalf of GoP, by the PTA. As per the award of the GoP, the PTCL started paying the Karachi Relief Rebate up to June 30, 1998 and thereafter, unilaterally, the PTCL decided to discontinue payments against the said package.

During the year ended June 30, 2000, the Company filed a law suit against the PTCL in the High Court of Sindh (the Court) for the recovery of Rs.71.276 million accrued up to October 1999 and consequential losses thereon, aggregating to Rs.2,261.924 million. The Court, during the year ended June 30, 2002, on an application filed by the Company, passed an interim order in favor of the Company and appointed a firm of Chartered Accountants for the determination of the actual amount receivable (final sum) from the PTCL. The said firm calculated the relief rebate and interconnect discount in accordance with the direction of the Court, containing various amounts determined under various alternatives, for the period commencing January 1997 to August 2001.

The Company contends that the relief rebate allowed to it through the PTA's letter, dated January 20, 1997, is of a continuing nature as no cessation date is mentioned in that letter. The Company further contends that the relief package was approved by the GoP after negotiations between the GoP and the Company.

The total amount due to be recovered on account of relief rebate amounted to Rs.698.690 million up to June 30, 2006. On a prudent basis, the Company accrued relief package up to June 30, 2005, aggregating to Rs.651.541 million, after which the practice of accruing the said relief was discontinued. In the view of the legal advisor of the Company, the Company has a strong case and the likelihood of the Company losing the case is remote. Hence, the management is confident about the realisation of the said amount together with the amount receivable from the PTCL in respect of wireline and multi-metering of Rs.48.712 (June 30, 2012 : Rs.48.712) million and Rs.18.287 (June 30, 2012 : Rs.18.287) million, respectively, and considers the recovery of these sums to be virtually certain. Accordingly, it has not made any provision against the above referred sums, pending a final decision by the Court in this matter.

14.2(b) During the year ended June 30, 2002, the PTCL filed a law suit against the Company for the recovery of Rs.334.313 million, alleging and disputing the relief rebate claimed / adjusted by the Company. In the opinion of the legal advisor of the Company, if it is decided by the Court that the Company is not entitled to the Karachi Relief Rebate and the decision in this case is against the Company, then the Company would have to pay only the above amount on account of Karachi Relief Rebate. If, however, it was concluded by the Court that the relief rebate is applicable, then, no amount would be liable to be paid by the Company to the PTCL but in fact the Company would be entitled to recover certain amounts as claimed in the law suit, discussed in (a) above. As per the above-referred legal advisor, there is likelihood that the Plaintiff will not succeed in its claim in this suit. Accordingly, pending the decision of the Court in this respect, the Company has not made any provision for the aforesaid claim in these financial statements.

The Court, in its order dated June 25, 2003, ordered the Company not to create third party interest on its fixed assets as well as undertakings except in the ordinary course of business till the disposal of this case.

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- 14.3 This represents the amount of interconnect discount which is subject to the determination of the final sum, as stated in note 14.2 (a) above. The Company is confident that it will recover the entire amount of interconnect discount from the PTCL and, hence, no provision has been made there against in these financial statements.
- 14.4 These represent payments made by the Company to the PTCL against leased lines and upfront connection charges erroneously billed by the PTCL under WPS. The Company claimed the said amounts through an application filed in the High Court of Sindh during the year ended June 30, 2008, for the recovery thereof from the PTCL. The proceedings in this lawsuit were subsequently stayed and the dispute referred for arbitration in the Islamabad High Court, which is currently in progress. The Company is confident that it will recover the entire amount from the PTCL and, hence, no provision has been made there against in these financial statements.
- 14.5 During the year ended June 30, 2007, the Company paid a sum of Rs.200 million to the PTCL on its demand in order to restore the services blocked by the PTCL. Thereafter, as a result of a settlement agreement between PTCL and the Company, PTCL agreed that after reconciliation of the disputed amounts under LL and LDI, any dues payable to the Company by the PTCL will be paid immediately. However, pending the said reconciliation the management has decided to make full provision against the said amount (2012: Nil) as a matter of prudence.
- 14.6 In March 2007, the PTA issued show cause notices to eight telecom companies, including the Company, in respect of Access Promotion Contribution (APC) for Universal Service Fund (USF) under the AP Rules, 2004 and AP Regulations, 2005. In case of the Company, the amount demanded was Rs.29.473 million. The Company responded to the show cause notice and appeared before the Authority through its Counselor, contending that the AP Rules, 2004 and the AP Regulations, 2005 were ultra vires and were of no legal effect whatsoever. During the year ended June 30, 2008, the PTA issued a final determination, upholding the said show cause notice and demanded the amount therein. A stay order against the PTA determination was obtained by the Company through the Islamabad High Court and repatriation was filed against the PTA and others. During the year ended June 30, 2009, the Islamabad High Court decided the case in favour of the PTA. The Company, along with other LDI licensees, as a result thereof has filed an appeal in the Supreme Court of Pakistan, which is in the initial stages of hearing.

Further, the PTA demanded on behalf of the USF a sum of Rs.4,429.269 million up to June 30, 2013 (June 30, 2012: Rs.4,282.631 million) in respect of APC for USF on the basis of international termination traffic by the Company up to Sep 30, 2012, in addition to Rs.29.473 million, aggregating to Rs.4,458.742 million (June 30, 2012: Rs.4,312.104 million), against which the Company paid a sum of Rs.2,115.921 million under protest (June 30, 2012: Rs.2,115.921) million (including forced payments in respect of research and development and RBS), comprising (a) Rs.729.479 million paid by the Company during the year ended June 30, 2010 and (b) a sum of Rs.1,200.000 million paid by the Contractor (note 21) to the PTA on behalf of the Company, during the year ended June 30, 2010 and (c) Rs.186.442 million paid up to June 30, 2009. Pending a final decision in this matter, the Company has recorded the said sum as due from the PTA under other receivables and has not adjusted the same nor any provision has been made for the remaining sum of Rs. 2,342.821 million (June 30, 2012: Rs. 2,196.183) million in these financial statements as management, based on the legal opinion received from its legal advisor in this regard, is confident that it will succeed in recovering the above referred sum.

In addition to, and without prejudice to its claims given above, the Company instituted further proceedings before the Sindh High Court at Karachi against the PTA and others on the basis that it has not correctly adjusted payments received from the Company, and that it is not following the provisions of Access Promotion Rules, 2004 and Access Promotion Regulations, 2005, while determining the said charge and as a consequence demanding illegal and inflated dues from the Company. The Company has obtained interim injunctions from the Court preventing any adverse actions from PTA.

Further, during the year June 2012, in compliance with the directive of Ministry of Information Technology (MoIT) dated August 13, 2012 and the instructions issued there under by the PTA, vide letter No. 04 01/12/(AP/CA) PTA, dated August 23, 2012, for the establishment of International Clearing House Exchange (ICH) [refer note 20.1] between the LDI Operators and PTCL, which shall come into effect from October 1, 2012, all LDI Operators have authorised PTCL to terminate all incoming traffic on their behalf and not via

their own networks. As per the terms of the ICH agreement, PTCL will retain 100% APC from the settlement rate which will be directly disbursed on account of APCL, APC for USF and MTR/MTR-I as per the existing rules and regulations on behalf of the Company. However, the pre-ICH claims of PTA on account of APC for USF against such LDI Operators, where these are still pending, will remain the individual LDI Operators' responsibility, and will be settled through legal process. Furthermore, LDI operators will open a PTA-LDI Escrow account with PTA on individual basis and PTCL shall deposit 15% of respective net LDI share collected under this agreement in the said accounts, and the same can be utilized to settle the alleged outstanding claims of PTA on account of APC for USF if the decision of the Court is against the Company.

However, this arrangement was challenged by Competition Commission of Pakistan (CCP) as being anticompetitive and thus illegal through its order dated 30 April 2013 and has imposed penalty @ 7.5% of annual turnover of each LDI. The company has filed a Constitutional Petition in the High Court of Sindh whereby the Honorable court was pleased to suspend the operations of the said order by CCP.

- 14.7 This represents amount due from a bank in respect of the PTCL bills paid by the Company to the bank but not passed over to the PTCL by the bank. The Company has filed a lawsuit in the Court for the recovery of Rs.0.998 million (2012: Rs.0.998 million) and damages, aggregating to Rs.8.245 (2012: Rs.8.245) million, against the bank. Accordingly, pending a final decision by the Court in this regard, no provision has been made for the above referred sum in these financial statements.

| | Note | June 30, 2013 | June 30, 2012 |
|---|-----------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| 14.8 Insurance claim | | | |
| Insurance claim receivable | | 10,953 | 10,953 |
| Provision for the insurance claims | | | |
| Opening balance | | (8,628) | (1,210) |
| Provision for the year | | - | (7,418) |
| | | <u>(8,628)</u> | <u>(8,628)</u> |
| | | <u>2,325</u> | <u>2,325</u> |
| 14.9 This represents amount over billed by the PTCL and paid by the Company in respect of optical fibre lines based on the rates applicable during the relevant billing periods. A claim in respect of the above is pending settlement. However, pending the settlement, as a matter of prudence, the management has made full provision against the above claim. | | | |
| 14.10 Provision for other receivables considered doubtful | | | |
| Opening balance | | 37,815 | 30,397 |
| Provision for the year | 14.5 & 35 | <u>200,000</u> | <u>7,418</u> |
| | | <u>237,815</u> | <u>37,815</u> |
| 15. TAXATION – net | | | |
| Advance income tax | | 104,071 | 107,989 |
| Provision for taxation - current | 38 | <u>(9,052)</u> | <u>(14,363)</u> |
| | | <u>95,019</u> | <u>93,626</u> |

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 ----- |
|---------------------|------|---|---------------------------|
| 16. BANK BALANCES | | | |
| Cash at banks | | | |
| In current accounts | | | |
| Local currency | | 2,660 | 994 |
| Foreign currency | | <u>402</u> | <u>33</u> |
| | | 3,062 | 1,027 |
| In savings accounts | | | |
| Local currency | 16.1 | 18,391 | 1,868 |
| Cheques in hand | | <u>1,373</u> | <u>2,704</u> |
| | | <u>19,764</u> | <u>4,572</u> |
| | | <u>22,826</u> | <u>5,599</u> |

16.1 These carry mark-up rates of 6% (2012: ranging between 5% to 6%) per annum.

17. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

| June 30, 2013 | June 30, 2012 | | | |
|--------------------|--------------------|-------------------------------|------------------|------------------|
| | | Number of shares | | |
| | | Ordinary shares of Rs.10 each | | |
| <u>300,000,000</u> | <u>300,000,000</u> | fully paid in cash | <u>3,000,000</u> | <u>3,000,000</u> |

17.1 As at the end of the current year Rs. 91,357,157 (2012: Rs. 105,207,157) Ordinary shares of Rs.10 each, amounting to Rs. 913,571,570 (2012: Rs. 1,052,071,570), were held by the related parties of the Company.

18. LONG TERM LOANS

Secured

| | | | | |
|--|------|-----------------|----------------|--|
| From banks and financial institutions | | | | |
| Local currency loan – I | 18.1 | - | 98,500 | |
| Local currency loan – II | 18.2 | 9,680 | 9,680 | |
| Local currency loan – III | 18.3 | <u>205,667</u> | <u>205,667</u> | |
| | | 215,347 | 313,847 | |
| Current maturity of local currency loans shown under current liabilities | | | | |
| | 29 | <u>(61,243)</u> | <u>(9,680)</u> | |
| | | <u>154,104</u> | <u>304,167</u> | |

- 18.1 This represents a local currency loan obtained by the Company from a commercial bank for a period of five years, inclusive of eighteen months grace period. It was repayable in eight semi-annual installments commencing November 23, 2009. The loan was restructured during the year ended June 30, 2010, and is now repayable as a lump sum on May 23, 2014. The loan carried mark-up at the rate of one year KIBOR plus 2.10% (2012: one year KIBOR plus 2.10%) per annum. It was secured against pari passu charge over the present and future fixed assets of the Company to the extent of Rs.467.000 (2012: Rs.467.000) million. During the year, this loan has been repaid in full by the Company.
- 18.2 During the year ended June 30, 2008, the Company arranged a running finance facility from a commercial bank amounting to Rs.100 million under an agreement dated March 31, 2008. During the year ended June 30, 2010, the said running financing facility was restructured as a medium term finance facility repayable in eighteen monthly installments, commencing July 1, 2010. The loan carries mark-up at the rate of one month KIBOR plus 2.00% (2012: one month KIBOR plus 2.00%) per annum. It is secured against pari passu charge over the present and future fixed assets of the Company to the extent of Rs.116.670 (2012: Rs.116.670) million.
- 18.3 The Company in prior years had obtained a local currency loan from a commercial bank for a period of five years, inclusive of eighteen months grace period repayable in eight semi-annual installments commencing July 24, 2008. The loan was restructured during the year ended June 30, 2010 repayable in eight semi-annual installments, commencing January 23, 2010. During the year ended June 30, 2012, the facility was restructured again by merging the running finance facility into demand finance and is repayable in five semi-annual installments starting from July 23, 2013. This loan carries mark-up at the rate of six months KIBOR plus 3.5% (2012: six months KIBOR plus 3.5%) per annum. It is secured against pari passu charge over the present and future fixed assets of the Company to the extent of Rs.467.000 (2012: Rs.467.000) million.

| Note | June 30, 2013 | June 30, 2012 |
|------|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |

19. ADVANCE FROM SUBSIDIARY

Unsecured

| | | | |
|--|------|----------------|---------------|
| Advance received from Supernet Limited | | 63,274 | 159,924 |
| Received during current year | | 76,733 | - |
| Transferred from loan to advance | | 65,000 | - |
| Taken to income upon rendering of services | 19.1 | (104,525) | (96,650) |
| | | <u>100,482</u> | <u>63,274</u> |
| Current maturity shown under current liabilities | 29 | (3,000) | (12,000) |
| | | <u>97,482</u> | <u>51,274</u> |

- 19.1 This represents advance received in respect of a non-exclusive right for certain infrastructure services to be provided by the Company to Supernet Limited for the period, commencing October 2009 to October 2013, as a result of an agreement signed between the Company and Supernet Limited. According to the agreement, the Company will provide these services for a period of four years at a rate fixed as follows: first nine months – no charge, following twelve months @ Rs.1.750 million per month, remaining months @ Rs.1.000 million per month. Further, the Company will receive an annual variable fee @ 8% of data networking revenue of Supernet Limited, if the same exceeds Rs.500.000 million in a year. Accordingly, revenue for the current year includes a sum of Rs.12.000 million representing the fixed fee and a sum of Rs. 92.525 million as variable fee for the year ended June 30, 2013.

The advance carries mark-up at the rate of Nil (2012: one month KIBOR plus 4.5% per annum.)

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 20. REDEEMABLE CAPITAL | | | |
| Secured | | | |
| Term Finance Certificates | 20.1 | 880,595 | 881,020 |
| Current maturity shown under current liabilities | 29 | (360,215) | (104,860) |
| | | <u>520,380</u> | <u>776,160</u> |

- 20.1 This represents listed Term Finance Certificates (TFC's) issued by the Company for the purposes of acquiring radio spectrum frequencies from the PTA and expanding/upgrading new WLL network redeemable in ten unequal semi-annual installments, commencing November 2005 with a semi-annual payment of mark-up at a rate of six months KIBOR plus 3.75% per annum with the last payment on November 27, 2010. However, the issue was restructured on two instances with the consent of TFC holders without penalties. Under the revised terms balance amount is repayable in 13 quarterly installments carrying mark-up at the rate of three months KIBOR plus 5.04 % with the last such payment on May 27, 2015.

The unpaid mark-up accrued on the redemption due on November 27, 2011, aggregating to Rs. 77.765 million, was also deferred whereby, it is now payable in 13 unequal installments commencing from May 27, 2012 to May 27, 2015. As a result, accrued mark-up aggregating to Rs. 45.881 million, which is due after a period of twelve months, has been classified as non-current in these financial statements.

These are secured against a first specific charge over the fixed assets of the Company, aggregating to Rs. 800.000 (2012: Rs. 800.000) million and specific charge over the intangible assets (frequency spectrum) procured from the PTA.

21. DUE TO A CONTRACTOR

Unsecured

| | | |
|--|----------------|----------------|
| Advance from a contractor | 896,182 | 467,121 |
| Credit note issued | - | 480,630 |
| Exchange loss on translation | 24,403 | 19,098 |
| Taken to income during the current year upon rendering of services | (84,898) | (70,667) |
| | <u>835,687</u> | <u>896,182</u> |

- 21.1 During the year ended June 30, 2010, that is, on April 30, 2010, the Company sold licenses for the 3.5 GHz frequencies to a Subsidiary Company of the Contractor, for a consideration of Rs.1,580.084 million, after obtaining necessary approval from the PTA. This sale was made in accordance with the terms of an 'Amended and Restated Network Agreement' (the Agreement) signed on April 26, 2010 between the Company, Contractor and its Subsidiary Company, covering (a) the sale of licenses and (b) provision of services to the Contractor for future periods pursuant to a Credit Note for Rs.1,051.250 million, equivalent to US\$12.5 million, to be issued by the Company.

The Agreement, as referred to above, superseded the earlier Network Agreement the Company signed with the Contractor during the year ended June 30, 2008 under which the Company received a sum of Rs.830.608 million for services to be rendered to the Contractor for a period of three years, commencing July 1, 2008 to June 30, 2011. During the term of the said agreement, up to the date of the supersession, the Company had recognised income, aggregating to Rs.507.594 million, leaving an unamortised balance of Rs.323.014 million.

Against the sale consideration of Rs.1,580.084, the Contractor paid (i) a sum of Rs.662.880 million to the Company and (ii) a sum of Rs.594.190 million directly to the PTA on behalf of the Company against the amounts due thereto by the Company in respect of various charges to fulfill a precondition for the execution and transfer of the title of the licenses in the name of the Subsidiary of the Contractor, which the Company has recorded as payment made under protest in note 14.6 under "Other Receivables".

Further, as the balance of Rs.323.014 million of unamortised advance from the Contractor was not refundable thereto as a result of the supersession of the earlier agreement herewith, the Company applied the same against the above referred sale consideration in accordance with the Amended and Restated Network Agreement.

On the other hand, against the provision of infrastructure services of Rs. 1,051.250 million to the Contractor for future services, as referred to in (b) above, the Contractor paid a sum of Rs.605.810 million directly to the PTA on behalf of the Company for the same reasons, as explained above, which has also been recorded by the Company as payment made under protest in note 14.6 under Other Receivables, aggregating to Rs. 1,200.000 million. As the Contractor was committed to issue shares to the Company, shares in question, valuing Rs. 480.630 million (equivalent to US\$5.307 million) were issued during the last year on April 04, 2012. The above referred consideration of Rs. 1,051.250 million in respect of provision of services had been adjusted by the Company against a sum of Rs.80.293 million during the year ended June 30, 2010, representing amounts due from the Contractor in respect of services rendered thereto, pursuant to the Amended and Restated Network Agreement, discussed above.

Although the Amended and Restated Network Agreement does not specify the period in which such infrastructure services are to be provided by the Company to the Contractor, the Company estimates that based on the current usage level, the value of the Credit Note will be exhausted during the balance life of its WLL Licenses, i.e. approximately fourteen years. Since the Credit Note in question has not been finalised to-date, it is not possible at present to calculate the amount to be taken into income during the next twelve months and, accordingly, no amounts have been transferred to current liabilities at the end of the current year.

| | Note | June 30, 2013 | June 30, 2012 |
|---------------------------------|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 22. LONG TERM DEPOSITS | | | |
| Security deposits | | | |
| Distributors | | 6,977 | 7,855 |
| Indoor Call Point holders | | 30,710 | 31,332 |
| Others | | 25,924 | 22,550 |
| | | <u>63,611</u> | <u>61,737</u> |
| 23. DEFERRED LIABILITIES | | | |
| Staff gratuity | 23.1 | 8,126 | 5,094 |
| Spectrum fee payable | 23.2 | 1,585,500 | 1,585,500 |
| | | <u>1,593,626</u> | <u>1,590,594</u> |

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 ----- (Rupees in '000') ----- | | | |
|--|------|---|---|--------------|---------------|---------------|
| 23.1 Staff gratuity | | | | | | |
| 23.1.1 Reconciliation of obligations as at year end | | | | | | |
| Present value of defined benefit obligation | | <u>8,126</u> | <u>5,094</u> | | | |
| 23.1.2 Movement in liability | | | | | | |
| Net liability at beginning of the year | | 5,094 | 7,530 | | | |
| Charge for the year | | 7,144 | 1,429 | | | |
| Benefits paid during the year | | <u>(4,112)</u> | <u>(3,865)</u> | | | |
| | | <u>8,126</u> | <u>5,094</u> | | | |
| 23.1.3 (Reversal of charge)/charge for the year | | | | | | |
| Past service cost | | 3,374 | 525 | | | |
| Interest cost | | 611 | 904 | | | |
| Actuarial loss recognised during the year | | <u>3,159</u> | - | | | |
| | | <u>7,144</u> | <u>1,429</u> | | | |
| 23.1.4 Movement in defined benefit obligation | | | | | | |
| Present value of defined benefit obligation at beginning of the year | | 5,094 | 7,530 | | | |
| Past service cost | | 3,374 | 525 | | | |
| Interest cost | | 611 | 904 | | | |
| Actuarial loss recognised during the year | | 3,159 | - | | | |
| Benefits paid during the year | | <u>(4,112)</u> | <u>(3,865)</u> | | | |
| | | <u>8,126</u> | <u>5,094</u> | | | |
| 23.1.5 Principal actuarial assumptions | | | | | | |
| The latest valuation was carried out as at June 30, 2013, using Projected Unit Credit Method. Following assumptions had been used for valuation of the scheme: | | | | | | |
| Expected rate of increase in salaries, per annum | | 9.50% | | | | |
| Expected discount rate, per annum | | 10.50% | | | | |
| 23.1.6 Comparison for five years | | | | | | |
| | | 2013 | 2012 | 2011 | 2010 | 2009 |
| | | ----- (Rupees in '000') ----- | | | | |
| Present value of defined benefit obligation | | <u>8,126</u> | <u>5,094</u> | <u>8,595</u> | <u>23,283</u> | <u>21,344</u> |
| 23.2 Spectrum fee payable | | <u>1,585,500</u> | <u>1,585,500</u> | | | |

This represents the balance of Initial Spectrum Fees (balance fees) in respect of the license and related frequencies acquired by the Company, as referred to in note 6. In 2005, the WLL Operators requested the Government, through the Ministry of Information Technology, to grant a moratorium for payment of the balance fees followed by a staggered payment schedule over 10 years. The PTA, pursuant to the approval of the Economic Coordination Committee (ECC), confirmed granting of the moratorium of 4 years, expiring during March 2010, to the WLL industry, including the Company, for the payment of balance of the spectrum fees, while other payment modalities were to be finalized. Since then, WLL Operators have been requesting the authorities for a confirmation of staggering of the balance fees over 10 years. On March 10, 2010, the Company received a letter from the PTA approving the staggering of balance of initial spectrum fees in ten equal installments, commencing from the year 2009. However, few days later, the PTA withdrew the said letter regarding it as being issued inadvertently, and instead, issued a show cause notice to the Company on June 02, 2010, seeking explanation for the non-payment of the balance of initial spectrum fee, with an immediate demand for the payment of the said amount. The Company thereafter submitted a detailed response against the show cause notice to the PTA, raising several legal and factual grounds but the PTA, without appreciating those facts, issued a final determination order dated, May 11, 2011 demanding the payment of this fee along with late payment charges.

The Company instituted an appeal against the above said Order in the Islamabad High Court seeking to set it aside on the basis that the same was issued in undue haste and without affording the Company an opportunity of hearing. The Court granted an injunction against PTA through its order, dated June 13, 2011. Further, a Civil Suit has also been filed jointly by the Company, DVCOM Data (Private) Limited and Great Bear International Services (Private) Limited in the High Court of Islamabad seeking a declaration as to the continuation of the moratorium on the payment of this balance of Initial Spectrum Fees, which is currently pending adjudication.

During the last years, the Ministry of Information Technology and Telecommunication (MoIT), vide its letter dated August 30, 2011, has accepted the long outstanding request of the WLL industry and has instructed the PTA to collect the balance fees in installments.

However, the above mentioned appeal was disposed-off by the said Court during the last year due to mis-representation of PTA in the Court contending that the said directive of MoIT was issued for some other Spectrum not relevant for the WLL Operators. A Constitutional Petition for grant of Leave to Appeal (CPLA) was filed by the Company, in the Supreme Court, challenging the dismissal of the appeal by the Islamabad High Court mainly on the grounds of MoIT afore-referred letter through which this balance fees was required to be collected in installments. In parallel, a fresh Writ was also instituted by the Company in the Islamabad High Court highlighting incorrect statement from PTA and also the MoIT directive in this regard which is pending adjudication. The Supreme Court has disposed of the CPLA with the directions to the MoIT, being at the top of the hierarchy, to enforce its directive on the PTA and also to resolve the controversy whether the directive does or does not relate to the licensees.

In view of the aforementioned order of the Honorable Supreme Court, the legal advisor of the Company has requested the MoIT to enforce its directions on PTA and initiate collection of the balance spectrum fee in 10 equal annual installments, with the first of such annual installments becoming due in January 2013, to ensure all installments are paid prior to the expiry of the current term of licenses. The response from MoIT is still awaited, pending which, the liability has not been discounted to its present value.

| | Note | June 30, 2013 | June 30, 2012 |
|---|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| 24. ACCRUED MARK-UP | | | |
| Accrued on redeemable capital – secured | 24.1 | <u>45,881</u> | <u>68,433</u> |
| 24.1 This represents unpaid mark-up in respect of redeemable capital as a result of restructuring as discussed in detail in note 20.1 | | | |

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 25. TRADE AND OTHER PAYABLES | | | |
| Trade | | | |
| Pakistan Telecommunication Company Limited (PTCL) Wireless Payphone Service (WPS) | 25.1 | 609,708 | 609,708 |
| LL & LDI charges | | 42,929 | 68,470 |
| Others | | 800 | 562 |
| | | 653,437 | 678,740 |
| ZTE Corporation Limited | | 37,708 | 35,408 |
| Interconnect operators | | 28,512 | 189,266 |
| Others | | 105,846 | 117,265 |
| | | <u>172,066</u> | <u>341,939</u> |
| Other payables | | | |
| Current accounts with related parties | 25.2 | 117,492 | 60,824 |
| Pakistan Telecommunication Authority | | 77,405 | 56,331 |
| Advances from customers | | 3,919 | 10,424 |
| Unearned income | | 2,058 | 9,375 |
| Accrued liabilities | | 309,924 | 298,614 |
| Unclaimed dividend | | 7,892 | 7,892 |
| Workers' Welfare Fund | | 2,282 | 2,282 |
| Others | | 56,924 | 59,354 |
| | | <u>577,896</u> | <u>505,096</u> |
| | | <u>1,403,399</u> | <u>1,525,775</u> |

25.1 During the year ended June 30, 2007, the PTCL submitted an application in the Court of Senior Civil Judge, Islamabad, for arbitration in respect of resolution of disputes relating to WPS, claiming a sum of Rs.968.000 (June 30, 2012: Rs.968.000) million on account of air time charges, line rent and access charges and Rs.276.000 (June 30, 2012: Rs.276.000) million in respect of leased line charges from the Company. Further, the PTCL raised a bill for Rs.102.080 million and Rs.50.912 million for years ended June 30, 2009 and June 30, 2010. Hence, total amount claimed by the PTCL as at December 31, 2010 amounted to Rs.1,396.992 (June 30, 2012: Rs. 1,396.992) million. However, the management, while acknowledging the liability to the extent of Rs.609.708 (June 30, 2012: Rs.609.708) million does not accept the liability for the remaining sum of Rs.787.284 (June 30, 2012: Rs.787.284) million and has not recorded the same in these financial statements. In this respect, however, the Company, during the year ended June 30, 2007, paid a sum of Rs.100.000 million to the PTCL under protest to ensure uninterrupted WPS. Further, the Company also paid a sum of Rs.189.725 million under protest during the year ended June 30, 2009, including Rs.170.000 million discussed in detail in the following paragraph, and recorded the above amounts, aggregating to Rs.289.725 (2012: Rs.289.725) million, as due from the PTCL under other receivables (note 14) and has not adjusted the same in these financial statements, pending the final resolution of the arbitration proceedings.

During the year ended June 30, 2008, a notice was served by the PTCL to the Company, stating that unless the above referred sum was paid, the PTCL would suspend the WPS service to the Company. The Company approached the Court in this matter, praying the declaration of the above referred notice as unlawful, and seeking at the same time, a permanent injunction, restraining the PTCL from suspending the said service. The Court issued an Order, dated February 26, 2008 and instructed PTCL not to suspend the WPS service provided the Company to continued to pay Rs. 17.000 million per month to the PTCL irrespective of the amount invoiced by the PTCL, with the said amount subject to final determination upon completion of the arbitration process, which is currently under progress. Based on said Order, the Company paid a sum of Rs.170.000 million to PTCL for the period commencing May 2008 to February 2009. Thereafter, the Company stopped paying the said amount to the PTCL, as services under the WPS Agreement were no longer required.

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| | Note | June 30, 2013 | June 30, 2012 |
|---|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 25.2 Related parties | | | |
| World Trade Center (Private) Limited | | 79,345 | 55,172 |
| Arfeen International (Private) Limited | | 795 | - |
| Envicon (Private) Limited | | 52 | 52 |
| Total Telecom Limited | | 421 | 421 |
| Instaphone Infrastructure (Private) Limited | | 25,052 | - |
| Telegatway Limited | | 5,755 | - |
| Chaman Investment (Private) Limited | | 4,147 | 4,147 |
| Telecard E-Solutions (Private) Limited | | 1,925 | 1,032 |
| | | <u>117,492</u> | <u>60,824</u> |

25.2.1 The above amounts due from related parties representing current account balances which are payable on demand. These carry mark-up at the rate of six months KIBOR plus 3.5% (2012: six months KIBOR plus 3.5%) per annum.

26. ACCRUED / INTEREST MARK-UP

On secured

| | | | |
|-----------------------------|----|----------------|----------------|
| Long-term loans | 18 | 19,615 | 25,380 |
| Redeemable capital | 20 | 162,711 | 83,638 |
| Short-term running finances | 27 | 10,885 | 11,107 |
| | | <u>193,211</u> | <u>120,125</u> |

On unsecured

| | | | |
|---------------------------------------|------|----------------|----------------|
| Advance from subsidiary | 19 | 35,063 | 35,064 |
| Short term borrowings | 28 | 29,047 | 8,606 |
| Current accounts with related parties | 25.2 | 7,941 | - |
| | | <u>72,051</u> | <u>43,670</u> |
| | | <u>265,262</u> | <u>163,795</u> |

27. SHORT-TERM RUNNING FINANCES

| | | | |
|----------------------|------|----------------|----------------|
| From banks – secured | 27.1 | <u>190,621</u> | <u>224,855</u> |
|----------------------|------|----------------|----------------|

27.1 The Company has arranged short-term running finance facilities, aggregating to Rs.225.000 (2012: Rs.300.000) million, from various commercial banks. These carry mark-up, ranging between three months KIBOR plus 2.75% to six months KIBOR plus 3% (2012: three months KIBOR plus 2.75% to six months KIBOR plus 3%) per annum, payable quarterly. The purchase prices are repayable on various dates. These facilities are secured against first pari passu hypothecation charge over current assets of the Company to the extent of Rs.394.000 (2012: Rs.394.000) million, as well as ranking charge over fixed assets of the Company to the extent of Rs.400.000 million (2012: Rs. 400 million).

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 |
|--------------------------|------|---|------------------|
| 28. SHORT TERM BORROWING | | | |
| Unsecured | | | |
| Loan from subsidiaries | 28.1 | <u>170,871</u> | <u>137,371</u> |

28.1 These represents short term loans received from related parties i.e., Supernet Limited and World Trade Center (Private) Limited, carrying markup rate 14% (2012: six month KIBOR plus 4.50%) and one year KIBOR plus 2.10% (2012:Nil) respectively. These loans are payable on demand.

29. CURRENT MATURITIES OF LONG TERM LIABILITIES

| | | | |
|---|----|----------------|----------------|
| Long term loans | 18 | 61,243 | 9,680 |
| Advance from a subsidiary company | 19 | 3,000 | 12,000 |
| Redeemable capital (TFCs) | 20 | 360,215 | 104,860 |
| Liabilities against assets subject to finance lease | | - | 13,158 |
| | | <u>424,458</u> | <u>139,698</u> |

30. CONTINGENCIES AND COMMITMENTS

30.1 The Company has filed an appeal under section 7(1) of the Pakistan Telecommunication (Re-organisation) Act, 1996 before the Islamabad High Court against the decision / determination of the PTA dated, November 18, 2008, whereby it directed the Company to pay Rs.137.651 million by December 15, 2008 in respect of annual regulatory dues for various years, commencing June 30, 2006. The above sum includes annual license fee, research and development fund contribution, annual radio spectrum frequency fee and radio base station charges along with late payment charges. The Islamabad High Court, vide its Order dated, March 19, 2009, suspended the aforesaid impugned Order of the PTA subject to the payment of Rs.36.000 million by the Company (which is the Company's admitted liability owed to the PTA excluding late payment charges). However, subsequent to the year end, the IHC has dismissed the appeal on the grounds of unauthorised filing. The Company has filed a Constitution Petition for grant of Leave to Appeal (CPLA) in this regard in the Supreme Court of Pakistan which is in the preliminary stage. As the adjudication is in process, therefore, no provision has been made by the Company for Rs.101.651 million in these financial statements. The Company has already paid the amount that was due on this account within the due date.

30.2 During the year ended June 30, 2009, the PTA issued a show cause notice to the Company, alleging that the Company has violated the Access Promotion Rules, 2004 and Access Promotion Regulations, 2005 in respect of reporting requirements and certain discrepancies in the data provided to the PTA under the said rules/regulations. The Company has taken strong exceptions to the allegations being unfounded and made in undue haste without affording the Company an opportunity to explain its position which could have avoided the need for issuance of a show cause notice to start with. In particular, the Company has stated that complete data was provided to the PTA and the PTA had no occasion to allege violation of the requirements of the rules/regulations. This was stated without prejudice to the Company's stance before the Supreme Court of Pakistan regarding the vary vires of the AP Rules, 2004 and AP Regulations, 2005 under which the aforementioned show cause notice has been issued to the Company.

Thereafter, during the year ended June 30, 2011, the PTA issued a Determination dated October 31, 2010 in respect of the above matter, and demanded a sum of Rs.56.47 million from the Company on account of short payment of APC for USF. The Company has filed a Writ Petition which is currently pending before the Islamabad High Court inter alia praying that the opportunity of being heard be afforded to the Company and the amount determined in the said Determination be corrected in view of the Company's application.

In view of the Company's legal advisor, at this juncture, amount of penalties, if any, imposed by the PTA on above referred irregularities cannot be ascertained, hence, no provision has been made by the Company for any liability that may arise as a result of this matter in these financial statements.

- 30.3 The Company filed a law suit against the Karachi Building Control Authority (KBCA) before the High Court of Sindh (the Court), for preventing their antennas from dismantling against notice issued by KBCA, dated February 26, 2006. The KBCA has instructed all cellular phone companies to regularise their antenna which involves obtaining an NOC from the KBCA, and a Stability Certificate within 15 days from the date of that notice, failing which the defendant has threatened to dismantle the antennas and / or take legal action. The Court has granted interim injunction and matter is pending for hearing of application. In view of the Company's legal advisor, it is not possible at this juncture to assess and estimate the financial impact of the case in question, however, the Company has a good arguable case and is likely to succeed and as such is not likely to suffer any loss on account of this litigation. Hence, no provision for any liability that may arise as a result of this matter has been recorded by the Company in these financial statements.
- 30.4 During the year, the PTA issued a show cause notice to the Company alleging that the amount in the sum of Rs.23 million on account of Annual Radio Spectrum Fees (ARFSF) for the year ended June 30, 2011 has not been paid. The Company in its reply to the said notice requested the PTA to receive this amount in 12 equal monthly installments while submitting the cheque for the first installment mainly on the grounds of business losses and consequent cash flow constraints. The PTA has turned down this request and issued a determination demanding the amount including late payment fees in lump sum. The said determination was challenged in the Islamabad High Court and the Court was pleased to suspend the operations of the order. The case is pending adjudication.
- 30.5 During the previous year, the PTA issued a show cause notice to the Company, demanding the payment of Annual Regulatory Dues in the sum of Rs. 21 million. However, the Company worked out these dues to be Rs. Nil as it contended that these dues should be calculated by using accrual basis of accounting, to arrive at the net revenue on which these charges should be calculated under the LDI and WLL license condition. The PTA, on the other hand, only allows expenses that are paid during the year to be deducted from the revenue. This contention was not accepted by the PTA and a determination was issued by the authority demanding the fee so calculated. The Company instituted an appeal in the Islamabad High Court, challenging the alleged amount demanded by the PTA and the Court suspended the said determination of PTA. The matter is pending adjudication and in view of the Company's legal advisor, the Company has a good arguable case and no liability has been recorded in these financial statements.
- 30.6 PTA, in the previous year, issued a show cause notice, alleging that the Company is not following the Approved Settlement Rate (ASR) while selling the international minutes as determined by the PTA. The Company in response has rejected the allegations by stating that the very issue of determining ASR in light of the relevant Rules and Regulations of the Authority stands sub-judice in the Honorable High Court of Sindh, which is currently pending and any further deliberations/implications/decisions relating to the ASR issue can only be made once a binding principle is established by the said Court in this matter. Further, the Company has also instituted a petition in the Honorable High Court of Sindh, challenging the show cause notice and the Court granted a stay to the effect that PTA will not revoke or cancel the Company's license in the matter. As per the legal advisor of the Company, the case is in its preliminary stage and the Company has a good arguable case on its merits and is likely to succeed in obtaining the relief sought against the respondent.

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- 30.7 During the year ended June 30, 2010, the PTA issued a determination relating to the Annual Regulatory Dues for 2008 and demanded a payment of Rs.54.548 million. The Company has challenged the determination in the High Court of Sindh, mainly on the ground that the PTA can only claim Annual Regulatory Dues on the licensed services and not on the non-licensed revenue streams. In view of the Company's legal advisor, the Company has a good arguable case on merits and is likely to succeed. Accordingly, as the case is pending adjudication, no provision has been made for the same in these financial statements pending a final decision.
- 30.8 During the current year, the Company has filed a Constitutional Petition before the High Court of Sindh at Karachi, seeking certain declarations and restraining orders against PTA & National Accountability Bureau, challenging the Notice, dated May 27, 2011, issued by PTA to the Company under section 5(r) of the NAB Ordinance whereby the PTA has required the Company to make payment of Rs.1,233.540 million on account of APC for USF Contribution till January 2011, which was payable by the Company within 30 days from the date of the Notice. In view of Company's legal advisor, the Company has a good arguable case on merit and is likely to succeed in obtaining the relief claimed against the respondents. Accordingly, no provision has been made for any liability in these financial statements for the above.
- 30.9 In respect of the assessment years 1999 - 2000 to 2002 - 2003, the Company was assessed partly under the presumptive tax regime (now final tax regime) and partly under the normal tax regime. Further, for assessment years 2001 - 2002 and 2002 - 2003, apart from taxation on historic basis, the tax authorities disallowed tax credit as well as the reinvestment allowance claimed by the Company on purchase of fixed assets. Tax demand in respect of these cases amounts to Rs.59.812 million. The Company has filed appeals against these cases with High Court of Sindh (the Court), which are currently pending.

The income tax return filed by the Company for the tax year 2003 was subjected to tax audit. An Order has been passed by the Taxation Officer under section 122(1) of the Income Tax Ordinance, 2001, whereby income has been assessed at Rs.56.923 million against the reported tax loss of Rs.5.945 million. The Company has filed an appeal against the same before the Income Tax Appellate Tribunal (ITAT) which has decided the case against the Company, after admitting an adjustment of tax refundable, amounting to Rs.4.529 million, against tax demand of Rs.19.358 million, thus creating a final tax demand of Rs.14.789 million. The Company has filed an appeal in the Court, which has not been heard to-date.

The aggregate financial impact of the above matters on the tax provision made by the Company in the financial statements works out to be Rs.74.601 (2012: Rs.74.601) million. However, the management, based on the opinion of its tax advisors, is confident about the favorable outcome of the above matters and, hence, no additional provision has been considered necessary in these financial statements.

- 30.10 PTCL's claim amounting to Rs.1,618.185 (2012: Rs.1,607.702) million in respect of monthly billing has not been acknowledged as debt by the Company. The Company maintains that the said amount is overbilled by the PTCL. Hence, no provision has been made against the same in these financial statements.
- 30.11 Contingencies in respect of matters relating to the PTCL have been disclosed in notes 14.2, 14.3, 14.4 and 25.1 to the financial statements. Pending resolutions of these matters no provision has been made against the amounts disclosed in these notes.
- 30.12 Contingency in respect of the PTA claim for APC for USF is disclosed in note 14.6 to the financial statements against which no provision has been made in these financial statements in accordance with the advice of the legal advisor.
- 30.13 Contingency relating to accrued mark-up is disclosed in note 13.1 to the financial statements against which no provision has been made for the reason disclosed in the said note.
- 30.14 Counter guarantees given to banks amounting to Rs.180 (2012: Rs.180) million.

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 ----- |
|---|------|---|---------------------------|
| 31. REVENUE – NET | | | |
| Turnover | | 2,190,698 | 1,277,422 |
| APC for USF | 31.1 | (566,602) | - |
| Trade discounts | | (3,054) | (8,018) |
| | | <u>1,621,042</u> | <u>1,269,404</u> |
| Services rendered to the contractor under the note 21 | | 84,867 | 70,234 |
| Interoperators infrastructure services | 19 | 104,525 | 96,650 |
| | | <u>1,810,434</u> | <u>1,436,288</u> |

31.1 This amount represents the APC for USF collected by PTCL on behalf of the Company for onward payment to USF as per the agreement dated August 30, 2012.

32. DIRECT COSTS

| | | | |
|---|-------|------------------|------------------|
| Interconnect charges – net | | 381,974 | 770,148 |
| Network media charges | | 76,861 | 87,784 |
| Network sites rent | | 118,228 | 135,596 |
| Network sites utilities and maintenance | | 90,245 | 90,873 |
| Insurance | | 10,112 | 8,158 |
| Annual regulatory charges | | 24,852 | 16,789 |
| Cost of cards sold | 32.1 | 128 | 687 |
| Depreciation | 5.1.2 | 329,883 | 361,125 |
| Amortisation | 6 | 181,517 | 181,517 |
| | | <u>1,213,800</u> | <u>1,652,677</u> |

32.1 Cost of cards sold

| | | | |
|---------------|--|------------|--------------|
| Opening stock | | 581 | 862 |
| Purchases | | 175 | 406 |
| | | <u>756</u> | <u>1,268</u> |
| Closing stock | | (628) | (581) |
| | | <u>128</u> | <u>687</u> |

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 |
|---|-------|---|------------------|
| 33. DISTRIBUTION COSTS & ADMINISTRATIVE EXPENSES | | | |
| Salaries and other benefits | 33.1 | 164,874 | 183,395 |
| Postage, telephone and telex | | 2,509 | 3,240 |
| Vehicles running and maintenance | | 25,785 | 26,460 |
| Travelling and entertainment | | 4,202 | 4,723 |
| Office security and maintenance | | 9,603 | 8,466 |
| Stationery | | 4,069 | 3,639 |
| Rent, rates & taxes | | 53,452 | 51,046 |
| Utilities | | 29,318 | 29,805 |
| Insurance | | 3,781 | 4,655 |
| Legal and professional charges | | 18,376 | 19,349 |
| Auditors' remuneration | 33.2 | 4,459 | 3,727 |
| Donation | 33.3 | 352 | 329 |
| Sales promotion and marketing | | 16,580 | 16,379 |
| Fee and subscription | | 978 | 1,602 |
| Depreciation | 5.1.2 | 7,200 | 9,110 |
| Provision for insurance claims | 14.10 | - | 7,418 |
| Provision for penalties | | - | 39,804 |
| Late payment surcharge-PTA | | - | 5,244 |
| Advances written-off | | 64,175 | - |
| Others | | 712 | 1,239 |
| | | <u>410,425</u> | <u>419,630</u> |
| 33.1 This includes Rs.7.144 million in respect of gratuity expense for the year (2012: Rs.1.429 million) and Rs.3.771 (2012: Rs.3.826) million in respect of the Company's contribution towards provident fund. | | | |
| 33.2 Auditors' remuneration | | | |
| Fee for the audit of annual financial statements | | 2,000 | 2,000 |
| Fee for the audit of consolidated financial statements | | 350 | 350 |
| Fee for the review of half yearly financial statements and other certifications | | 1,120 | 980 |
| Tax services | | 660 | 28 |
| Out-of-pocket expenses | | 329 | 369 |
| | | <u>4,459</u> | <u>3,727</u> |
| 33.3 Donations do not include any donee in whom any director or his spouse has any interest. | | | |
| 34. OTHER OPERATING EXPENSES | | | |
| Exchange loss - net | | <u>24,684</u> | <u>20,303</u> |

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| | Note | June 30, 2013 | June 30, 2012 |
|---|-----------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 35. PROVISION FOR IMPAIRMENT IN THE VALUE OF INVESTMENT & FOR OTHER RECEIVABLES | | | |
| Provision for: | | | |
| Impairment in value of investment | 7.1 | 480,630 | - |
| Other receivables considered doubtful | 14.10 | 200,000 | - |
| | | <u>680,630</u> | <u>-</u> |
| 37. OTHER INCOME | | | |
| Income from financial assets | | | |
| Return on bank balances | | 223 | 142 |
| Dividend income | | 9,017 | - |
| | | 9,240 | 142 |
| Mark-up on current accounts with related parties | | 5,473 | 14,797 |
| Income from non-financial assets | | | |
| Gain on sale of fixed assets | | 1,400 | 2,005 |
| Professional services | 36.1 | 18,540 | 18,000 |
| Liabilities no longer payable written back | | - | 9,411 |
| Others | | 215 | 291 |
| | | 20,155 | 29,707 |
| | | <u>34,868</u> | <u>44,646</u> |
| 36.1 This represents accounting and human resource services rendered by the Company to a related parties. | | | |
| 37. FINANCE COSTS | | | |
| Interest/mark-up on: | | | |
| Long-term loans | | 35,615 | 44,005 |
| Redeemable capital | | 133,184 | 151,523 |
| Short-term borrowing | | 20,440 | 8,606 |
| Short-term running finances | | 27,792 | 43,800 |
| | | 217,031 | 247,934 |
| Markup on current accounts with related parties | | 8,090 | - |
| Markup on advance from subsidiary | | - | 23,435 |
| Bank charges | | 3,190 | 3,578 |
| | | 11,280 | 27,013 |
| | | <u>228,311</u> | <u>274,947</u> |
| 38. TAXATION | | | |
| Current | 15 & 38.1 | 9,052 | 14,363 |
| Deferred | | (264,734) | (292,006) |
| | | <u>(255,682)</u> | <u>(277,643)</u> |

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38.1 The relationship between income tax expense and accounting profit has not been presented in these financial statements as the provision for taxation for the current year is based on minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001.

38.2 The income tax assessments of the Company have been finalised up to and including the tax year 2012, except for certain tax year in respect of which, appeals are currently in progress at different forums (note 30.9).

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 39. LOSS PER SHARE – basic and diluted | | | |
| Loss after tax for the year | | (456,866) | (608,980) |
| Weighted average number of shares | | 300,000,000 | 300,000,000 |
| Loss per share (Rupees) | | (1.52) | (2.03) |

There is no dilutive effect on the basic earnings of the Company.

40. CASH GENERATED FROM/(UTILISED IN) OPERATIONS

| | | |
|--|-----------|-----------|
| Loss before taxation | (712,548) | (886,623) |
| Adjustments for non-cash charges and other items | | |
| Depreciation | 337,083 | 370,235 |
| Amortisation | 181,517 | 181,517 |
| Provision for gratuity | 7,144 | 1,429 |
| Finance cost | 225,121 | 271,369 |
| Dividend income | (9,017) | - |
| Advances written-off | 64,175 | - |
| Provision for insurance claims | - | 7,418 |
| Impairment on long term investment | 480,630 | - |
| Provision against other receivables | 200,000 | - |
| Profit on sale of fixed assets | (1,400) | (2,005) |
| | 1,485,253 | 829,963 |
| | 772,705 | (56,660) |
| (Increase)/decrease in current assets | | |
| Stock-in-trade | (47) | 281 |
| Trade debts | (91,459) | (9,152) |
| Loans and advances | (4,204) | (1,942) |
| Deposits and prepayment | (78,670) | 9,777 |
| Accrued markup | (5,323) | (14,653) |
| Other receivables | (159,231) | 46,018 |
| | (338,934) | 30,329 |
| (Decrease)/increase trade and other payables | (122,375) | 230,937 |
| Cash generated from operations | 311,396 | 204,606 |

41. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

| | 2013 | | | 2012 | | |
|---------------------------------|-----------------|--------------|---------------|-----------------|--------------|---------------|
| | Chief Executive | Director | Executives | Chief Executive | Director | Executives |
| | (Rs. in '000') | | | (Rs. in '000') | | |
| Managerial remuneration | 5,806 | 3,290 | 31,658 | 5,806 | 6,135 | 30,938 |
| Other perquisites and benefits: | | | | | | |
| House rent | 2,613 | 1,481 | 14,246 | 2,613 | 2,761 | 13,922 |
| Medical | - | 25 | 456 | - | 55 | 2,398 |
| Retirement benefits | 484 | 274 | 1,662 | 411 | 199 | 3,171 |
| Utilities | 581 | 329 | 3,166 | 581 | 614 | 3,094 |
| | 3,678 | 2,109 | 19,530 | 3,605 | 3,629 | 22,585 |
| | <u>9,484</u> | <u>5,399</u> | <u>51,188</u> | <u>9,411</u> | <u>9,764</u> | <u>53,523</u> |
| Number of persons | <u>1</u> | <u>2</u> | <u>34</u> | <u>1</u> | <u>2</u> | <u>32</u> |

41.1 A director of the Company is also provided with the free use of the Company maintained car and other benefits in accordance with their terms of service.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks i.e. market risk, credit risk and liquidity risk. The risk is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the management. The Board of Directors supervises the overall risk management approach within the Company.

42.1 Market risk

Market risk is the risk that fair value of future cash flows will fluctuate because of changes in market variables such as interest rates, foreign exchange rates and equity prices.

42.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in the market interest rates. As of June 30, 2013, the Company is exposed to such risk mainly in respect of long-terms and short term borrowings. When the Company has surplus cash available for investment, it minimizes the interest rate risk by investing in fixed rate investments like Term Deposit Receipts.

Management of the Company estimates that 1% increase in the market interest rate, with all other factors remaining constant, would decrease the Company's profit by Rs.12.467 million and a 1% decrease would result in an increase in the Company's profit by the same amount. However, in practice, the actual results may differ from the sensitivity analysis.

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42.1.2 Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liabilities will fluctuate due to a change in a foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. The Company's exposure to foreign currency risk is as follows:

| | June 30, 2013 US \$ | June 30, 2012 US \$ |
|---|---------------------------|---------------------------|
| Trade debts | 41,588 | 1,077,199 |
| Bank balances | 4,076 | 436 |
| Trade and other payables | <u>(602,226)</u> | <u>(530,648)</u> |
| | <u>(556,562)</u> | <u>546,987</u> |
| The following significant exchange rates have been applied at the reporting dates | | |
| Exchange rate (Rupees) | <u>98.80</u> | <u>94.00</u> |

The foreign currency exposure is partly covered as majority of the Company's billing is determined in dollars which is converted into rupees at the exchange rate prevailing at the transaction date. The Company has assessed that hedging its foreign currency borrowings will be more expensive than assuming the risk itself.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax and the Company's equity.

| | Change in US dollar rate (%) | Effect on profit / (loss) ----- (Rupees in '000') | Effect on Equity ----- |
|---------------|------------------------------------|---|------------------------------|
| June 30, 2013 | +10 | <u>(5,499)</u> | <u>(5,499)</u> |
| | -10 | <u>5,499</u> | <u>5,499</u> |
| June 30, 2012 | +10 | <u>5,142</u> | <u>5,142</u> |
| | -10 | <u>(5,142)</u> | <u>(5,142)</u> |

42.1.3 Equity risk

Equity price risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. As of June 30, 2013 the Company is not exposed to equity price risk.

42.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss for the Company by failing to discharge its obligations. The table below analyses the Company's maximum exposure to credit risk.

| | Note | June 30, 2013 | June 30, 2012 |
|------------------------------|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| Trade debts | | 224,153 | 132,695 |
| Deposits, loans and advances | | 21,185 | 30,094 |
| Accrued mark-up | | 69,462 | 64,139 |
| Other receivables | | 3,475,933 | 3,516,703 |
| Bank balances | | <u>21,453</u> | <u>2,895</u> |
| | | <u>3,812,186</u> | <u>3,746,526</u> |

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

The credit quality of financial assets that are neither past nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates as follows:

| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 ----- |
|---|------|---|---------------------------|
| Trade debts | | | |
| Customers with no defaults in the past one year | | <u>224,153</u> | <u>132,695</u> |
| Bank balances | | | |
| A1+ | | 1,357 | 2,767 |
| A1 | | 548 | - |
| A-1 | | 73 | 73 |
| A-2 | | 19,470 | 20 |
| A3 | | 5 | 35 |
| | | <u>21,453</u> | <u>2,895</u> |

42.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company attempts to follow effective cash management and planning policy to ensure the availability of funds through committed credit facilities. The table below summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

| | Less than 3 months | 3 to 12 months | 1 to 5 Years | Greater than 5 years | Total |
|---|--------------------------|-------------------|------------------|----------------------------|------------------|
| ----- (Rupees in '000') ----- | | | | | |
| Long-term loans | - | 61,243 | 154,104 | - | 215,347 |
| Redeemable capital | - | 360,215 | 520,380 | - | 880,595 |
| Long-term deposits | - | - | 63,611 | - | 63,611 |
| Spectrum Fee payable | - | - | 1,585,500 | - | 1,585,500 |
| Trade and other payables | - | 1,403,401 | - | - | 1,403,400 |
| Accrued mark-up | 248,154 | 17,108 | 45,881 | - | 311,143 |
| Short-term borrowings / running finances | 170,871 | 190,621 | - | - | 361,492 |
| June 30, 2013 | <u>419,025</u> | <u>2,032,588</u> | <u>2,369,476</u> | <u>-</u> | <u>4,821,089</u> |
| Long-term loans | - | 9,680 | 304,167 | - | 313,847 |
| Redeemable capital | - | 104,860 | 776,160 | - | 881,020 |
| Long-term deposits | - | - | 61,816 | - | 61,816 |
| Spectrum Fee payable | - | - | 1,585,500 | - | 1,585,500 |
| Trade and other payables | - | 1,525,775 | - | - | 1,525,775 |
| Accrued mark-up | 154,636 | 9,159 | 68,433 | - | 232,228 |
| Short-term borrowings / running finances | 137,371 | 224,855 | - | - | 362,226 |
| June 30, 2012 | <u>292,007</u> | <u>1,874,329</u> | <u>2,796,076</u> | <u>-</u> | <u>4,962,412</u> |

Effective interest / mark-up rates for the financial liabilities are mentioned in the respective notes to the financial statements.

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42.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

42.5 Capital management

The Company's objective when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders.

The Company monitors capital using a gearing ratio, which is debt divided by total capital plus debt as follows:

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| Long-term loans | | 215,347 | 313,847 |
| Redeemable capital | | 880,595 | 881,020 |
| Due to PTA | | 1,585,500 | 1,585,500 |
| Debt | | 2,681,442 | 2,780,367 |
| Issued, subscribed and paid-up capital | | 3,000,000 | 3,000,000 |
| Unappropriated profit / (accumulated losses) | | (620,448) | (163,582) |
| Total capital | | 2,379,552 | 2,836,418 |
| Capital and debt | | 5,060,994 | 5,616,785 |
| Gearing ratio | | 53.0% | 49.5% |

43. TRANSACTIONS WITH RELATED PARTIES

The related parties include a subsidiary Company, entities having directors in common with the Company, major shareholders of the Company, directors and other key management personnel and retirement benefit plans. Transactions with related parties, other than those disclosed elsewhere in the financial statements are as under:

Wholly owned subsidiary companies

| | | | |
|--|---------|---------|--|
| Supernet Limited | | | |
| Services rendered | 117,724 | 115,248 | |
| Services received | 13,814 | 13,369 | |
| Markup charged to the Company | 10,132 | 32,013 | |
| Advance received by the Company | 76,733 | - | |
| Dividend received | 9,017 | - | |
| Payments made by the Company | 800 | - | |
| Payments made on behalf of the Company | 30 | - | |
| Short term borrowings by the Company | - | 137,371 | |
| Telecard E-Solutions (Private) Limited | | | |
| Payments made by the Company | 9,902 | 14,450 | |
| Services received | 10,875 | 6,703 | |
| Markup charged to the Company | 214 | - | |
| Services rendered | 80 | - | |

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| Telegateway Limited | | | |
| Services received | | 6,000 | - |
| Markup charged to the Company | | 319 | - |
| Services rendered | | 127 | - |
| Payment made by the Company | | 7 | 96 |
| TCL Asia (UK) Limited | | | |
| Payments made on behalf by the Company | | 86 | - |
| Entities having directors in common with the Company | | | |
| Arfeen International (Private) Limited | | | |
| Payment made on behalf of the Company | | 1,516 | 1,822 |
| Rent charged during the year | | 5,520 | 5,520 |
| Markup charged by the Company | | 5,016 | 8,432 |
| Services rendered | | 238 | 203 |
| Payments made by the Company | | - | 780 |
| World Trade Center (Private) Limited | | | |
| Service received | | 62,095 | 63,116 |
| Short term borrowing | | 98,500 | - |
| Markup charged to the Company | | 17,715 | - |
| Envicrete Limited | | | |
| Services rendered | | 152 | 211 |
| Payment made on behalf of the Company | | - | 387 |
| Provident Fund | | | |
| Contribution during the year | | 3,771 | 3,826 |
| Instaphone Infrastructure (Private) Limited | | | |
| Payment made by the Company | | 3,435 | 4,209 |
| Payment made on behalf of the Company | | 3,802 | 1,087 |
| Services rendered | | 18,000 | 18,000 |
| Services received | | 57,140 | 64,761 |
| Markup charged to the Company | | 150 | - |
| Markup charged by the Company | | - | 6,053 |
| Vehicle disposed off | | - | 375 |
| Fixed asset purchased by the Company | | - | 1,150 |
| Instaphone (Private) Limited | | | |
| Markup charged by the Company | | 457 | 167 |
| Payment made by the Company | | - | 2,615 |
| Services received | | - | 540 |

43.1 Balances outstanding with related parties have been disclosed in the respective notes to the financial statements.

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| | |
|----------------------------------|-------------------------------|
| June 30, 2013 (Un-audited) | June 30, 2012 (Audited) |
| ----- (Rupees in '000') ----- | |

44. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on latest un-audited financial statements of the Fund:

| | | |
|---------------------------------|---------------|---------------|
| Size of the Fund - total assets | 36,296 | 28,043 |
| Cost of the investment made | 24,210 | 17,049 |
| Percentage of investments made | 72% | 70% |
| Fair value of investments | <u>26,293</u> | <u>19,723</u> |

| | | | | |
|--|---------------|----|---------------|----|
| 44.1 The break-up of fair value of investments is: | | % | | % |
| Bank balances / deposits | 11,724 | 45 | 9,530 | 49 |
| Mutual funds | 8,951 | 34 | 5,185 | 26 |
| National Saving Schemes | 5,618 | 21 | 5,008 | 25 |
| | <u>26,293</u> | | <u>19,723</u> | |

44.2 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

45. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at June 30, 2013 and 2012 respectively are as follows:

| | | |
|---|------------------|------------------|
| | June 30, 2013 | June 30, 2012 |
| Average number of employees during the year | <u>269</u> | <u>319</u> |
| Number of employees as at | <u>260</u> | <u>277</u> |

46. CORRESPONDING FIGURES

Certain corresponding figures have been reclassified for the purpose of better presentation, however, there were no material reclassification.

47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 08, 2013 by the board of directors of the Company.

48. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees, unless otherwise stated.


Chief Executive


Director

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CONSOLIDATED FINANCIAL STATEMENTS

Telecard Limited

2013 ANNUAL REPORT



Parker Randall-A.J.S.
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Telecard Limited (the Holding Company) and its Subsidiary Companies (together referred to as Group) as at 30 June 2013 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed modified opinions on the financial statements of the Holding Company and its Subsidiary Company, Supernet Limited. The financial statements of Telecard Asia (UK) Limited was un-audited and the financial statements of Telecard E-Solutions (Private) Limited and Telegateway Limited were audited by us for which we have expressed separate opinions.

The consolidated financial statements as at June 30, 2012 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants. Auditor's report dated November 08, 2012 expressed a modified opinion on those consolidated financial statements.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2013 and the results of its operations for the year then ended, in accordance with approved accounting standards as applicable in Pakistan.

We draw attention to the contents of:

- i) notes 17.2(a) and 17.3 to the accompanying consolidated financial statements in respect of the lawsuit filed by the Holding Company during the year ended 30 June 2000 in the High Court of Sindh with regard to the recovery of Karachi Relief Rebate, interconnect discount and other related amounts from Pakistan Telecommunication Company Limited, pending a final decision no provision has been made in the accompanying consolidated financial statements for any amount that may not be recoverable;
- ii) note 17.2(b) to the accompanying consolidated financial statements with regard to a lawsuit filed by the PTCL against the Holding Company during the year ended 30 June 2002. Pending a decision, the Group has not made any provision in the accompanying consolidated financial statements for the amount claimed by the PTCL;
- iii) note 17.6 to the accompanying consolidated financial statements in respect of the Pakistan Telecommunication Authority's claim for Access Promotion Contribution for Universal Service Fund. Pending a final decision by the Supreme Court of Pakistan, no provision has been made for the remaining sum of Rs.2,342.821 million in the accompanying consolidated financial statements;
- iv) notes 33.1 to 33.17 to the accompanying consolidated financial statements in respect of contingencies the ultimate outcome of which cannot presently be determined and, hence, pending the resolution thereof, no provision has been made in the accompanying consolidated financial statements for any liability that may arise there from;



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- v) note 16.1 to the accompanying consolidated financial statements in respect of mark-up claimed by the Holding Company from a commercial bank which has been accrued by the Holding Company in the accompanying consolidated financial statements. Pending a final decision in this matter, no provision has been made in the accompanying consolidated financial statements there against;
- vi) note 26.2 to the accompanying consolidated financial statements in respect of Spectrum Fee payable, shown under deferred liabilities, as a result of the appeal instituted by the Holding Company in the Islamabad High Court during the last year;
- vii) note 10.1 to the accompanying financial statements concerning the full provision for impairment in the value of investment.
- viii) note 29.5 to the consolidated financial statements regarding tax deducted from payments made to certain Foreign Satellite Bandwidth providers not deposited to-date in the federal treasury.

Our opinion is not qualified in respect of the above matters.

Chartered Accountants

Audit Engagement Partner: Muhammad Shabbir Kasbati

Date: 08 October 2013

Place: Karachi

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CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2013

| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 ----- |
|--|------|---|---------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | 6 | 1,451,323 | 1,858,187 |
| Intangible assets | 7 | 2,067,645 | 2,248,686 |
| | | <u>3,518,968</u> | <u>4,106,873</u> |
| Long-term loans and advances | 8 | 5,820 | 5,820 |
| Long-term deposits | 9 | 68,781 | 71,726 |
| Long-term investments | 10 | - | 480,630 |
| Deferred taxation | 11 | 422,108 | 154,201 |
| | | <u>4,015,677</u> | <u>4,819,250</u> |
| CURRENT ASSETS | | | |
| Communication stores | 12 | 125,513 | 94,160 |
| Stock-in-trade | | 628 | 581 |
| Trade debts | 13 | 728,802 | 483,901 |
| Loans and advances | 14 | 66,329 | 52,963 |
| Deposits and prepayments | 15 | 115,791 | 69,600 |
| Accrued mark-up | 16 | 70,012 | 65,306 |
| Other receivables | 17 | 3,476,793 | 3,522,848 |
| Taxation – net | 18 | 174,451 | 164,595 |
| Short-term investment | 19 | - | 34,180 |
| Bank balances | 20 | 101,879 | 21,476 |
| | | <u>4,860,198</u> | <u>4,509,610</u> |
| TOTAL ASSETS | | <u>8,875,875</u> | <u>9,328,860</u> |
| EQUITY AND LIABILITIES | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Share capital | | | |
| Authorised | | | |
| 400,000,000 (2012: 400,000,000) Ordinary shares of Rs.10 each | | 4,000,000 | 4,000,000 |
| Issued, subscribed and paid-up | 21 | 3,000,000 | 3,000,000 |
| Unappropriated profit /(loss) | | <u>(301,738)</u> | <u>151,702</u> |
| | | <u>2,698,262</u> | <u>3,151,702</u> |
| NON-CURRENT LIABILITIES | | | |
| Long-term loans | 22 | 154,104 | 304,167 |
| Redeemable capital | 23 | 520,380 | 776,160 |
| Advance from a Contractor | 24 | 835,687 | 896,182 |
| Long-term deposits | 25 | 137,872 | 67,651 |
| Deferred liabilities | 26 | 1,597,347 | 1,594,515 |
| Accrued markup-TFC | 27 | 45,881 | 68,433 |
| | | <u>3,291,271</u> | <u>3,707,108</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 28 | 1,803,647 | 1,825,140 |
| Accrued interest / mark-up | 29 | 213,891 | 124,363 |
| Short-term running finances | 30 | 342,932 | 352,110 |
| Short term borrowing | 31 | 98,500 | - |
| Current maturities of long-term liabilities | 32 | 427,372 | 168,437 |
| | | <u>2,886,342</u> | <u>2,470,050</u> |
| CONTINGENCIES AND COMMITMENTS | 33 | - | - |
| TOTAL EQUITY AND LIABILITIES | | <u>8,875,875</u> | <u>9,328,860</u> |

The annexed notes from 1 to 52 form an integral part of these consolidated financial statements.


Chief Executive


Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| REVENUE – net | 34 | 2,931,348 | 2,520,995 |
| Direct costs | 35 | <u>2,173,758</u> | <u>2,580,981</u> |
| GROSS PROFIT / (LOSS) | | 757,590 | (59,986) |
| Distribution costs and administrative expenses | 36 | 556,976 | 559,564 |
| Other operating expenses | 37 | 22,934 | 23,758 |
| Provision for impairment in the value of investment & for other receivables | 38 | 680,630 | - |
| | | <u>1,260,540</u> | <u>583,322</u> |
| Other income | 39 | (38,508) | (62,631) |
| | | <u>1,222,032</u> | <u>520,691</u> |
| OPERATING LOSS | | <u>(464,442)</u> | <u>(580,677)</u> |
| Finance costs | 40 | 238,587 | 266,078 |
| LOSS BEFORE TAXATION | | <u>(703,029)</u> | <u>(846,755)</u> |
| Taxation | 41 | 249,589 | 264,082 |
| LOSS FOR THE YEAR | | <u>(453,440)</u> | <u>(582,673)</u> |
| | | ----- (Rupees)----- | |
| LOSS PER SHARE - Basic and diluted (Rupees) | 42 | <u>(1.51)</u> | <u>(1.94)</u> |

The annexed notes from 1 to 52 form an integral part of these consolidated financial statements.


Chief Executive


Director

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | June 30, 2013 | June 30, 2012 |
|----------------------------|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| Loss for the year | | (453,440) | (582,673) |
| Other comprehensive income | | - | - |
| Total comprehensive loss | | <u>(453,440)</u> | <u>(582,673)</u> |

The annexed notes from 1 to 52 form an integral part of these consolidated financial statements.


Chief Executive


Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013

| | Note | June 30, 2013 | June 30, 2012 |
|---|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 43 | 341,892 | 376,066 |
| Income tax paid | | (28,175) | (26,819) |
| Finance costs paid | | (167,043) | (173,347) |
| Retirement benefits paid | | (4,259) | (3,910) |
| Due to employees | | (334) | (10,182) |
| Liability for long-term deposits | | 35,730 | (18,216) |
| Long-term deposits | | 2,945 | 28,774 |
| Net cash generated from operating activities | | 180,756 | 172,366 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditure | | (52,677) | (61,883) |
| Proceeds from disposal of property, plant and equipment | | 1,400 | 2,688 |
| Intangible assets | | - | (328) |
| Net cash (used in) investing activities | | (51,277) | (59,523) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Advance from a Contractor - net | | (60,495) | (51,569) |
| Repayment of redeemable capital | | (425) | (980) |
| (Repayment)/ proceed of long-term finances - net | | (98,500) | 32,347 |
| Proceeds from short-term borrowings - net | | 98,500 | - |
| (Repayment)/ proceeds of short-term running finance - net | | (9,178) | (85,726) |
| Repayment of obligations under finance lease | | (13,158) | (151) |
| Net cash used in financing activities | | (83,256) | (106,079) |
| Net increase in cash and cash equivalents | | 46,223 | 6,764 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 55,656 | 48,892 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 44 | 101,879 | 55,656 |

The annexed notes from 1 to 52 form an integral part of these consolidated financial statements.


Chief Executive


Director

2013 ANNUAL REPORT**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2013**

| | Issued, subscribed and paid-up capital | Un- appropriated profit/ (loss) | Total |
|-------------------------------|---|--|------------------|
| ----- (Rupees in '000') ----- | | | |
| Balance as at June 30, 2011 | 3,000,000 | 734,375 | 3,734,375 |
| Net loss for the year | - | (582,673) | (582,673) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss | - | (582,673) | (582,673) |
| Balance as at June 30, 2012 | 3,000,000 | 151,702 | 3,151,702 |
| Net loss for the year | - | (453,440) | (453,440) |
| Other comprehensive income | - | - | - |
| Total comprehensive loss | - | (453,440) | (453,440) |
| Balance as at June 30, 2013 | <u>3,000,000</u> | <u>(301,738)</u> | <u>2,698,262</u> |

The annexed notes from 1 to 52 form an integral part of these consolidated financial statements.


Chief Executive


Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

1. THE GROUP AND ITS OPERATIONS

The Group comprises of:

- > Telecard Limited – Holding Company
- > Supernet Limited – Subsidiary Company
- > Telecard Asia (UK) Limited - Subsidiary Company
- > Telecard E-Solutions (Private) Limited - Subsidiary Company
- > Telegateway Limited – Subsidiary Company

Telecard Limited was incorporated in Pakistan on October 29, 1992 as a public limited company. The shares of the Holding Company are listed on the Karachi and Islamabad Stock Exchanges. The Holding Company is licensed to provide fully integrated telecommunication services, including basic wireless telephony, long distance and international services and payphones. The registered office of the Holding Company is located at World Trade Centre 75-East Blue Area, Fazal-ul-Haq road, Islamabad. The principal place of business of the Company is located at World Trade Centre, 10- Khayaban-e-Roomi, Clifton, Karachi.

Supernet Limited is engaged in providing satellite and microwave communication services e.g. internet, radio links, Single Channel Per Carrier (SCPC), Time Division Multiple Access (TDMA), etc. and sale and installation of related equipment and accessories. Telecard Limited holds 100% equity of Supernet Limited.

Telecard Asia (UK) Limited is engaged in providing international telecommunication service. Telecard Limited holds 100% equity of Telecard Asia (UK) Limited.

Telecard E-Solutions (Private) Limited is engaged in providing telecommunication solutions and other IT related Services. Telecard Limited holds 100% equity of Telecard E-Solutions (Private) Limited.

Telegateway Limited is engaged in the business of providing means of communicating audio, video or audio/video messages transmitted by radio cable, impulses and beams or by any combination thereof or by any other means through space, air, land, water, underground or underwater as permissible under the law. Telecard Limited holds 100% equity of Telegateway Limited.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared under the historical cost convention except for certain employees' benefits and liabilities which have been carried at present value (note 25).

4. BASIS OF CONSOLIDATION

These consolidated financial statements comprise the financial statements of the Holding Company and its Subsidiary Companies and prepared using uniform accounting policies. The assets, liabilities, income and expenses of the Subsidiary Companies have been consolidated on a line by line basis. Inter-group transactions and balances have been eliminated for the purpose of consolidation.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Standards, interpretations and amendments to published approved accounting standards that are not yet effective and have not been early adopted by the Group.

The following revised standards and interpretations with respect to approved accounting standards would be effective from the dates mentioned below against the respective standards or interpretations:

| Standard or Interpretation | Effective Date (accounting periods beginning on or after) |
|--|---|
| IFRS 7 Financial instruments: Disclosures (Amendments) | January 1, 2013 |
| IAS 1 Presentation of Consolidated financial statements (Amendments) | January 1, 2013 |
| IAS 16 Property, Plant and Equipment (Amendments) | January 1, 2013 |
| IAS 19 Employee Benefits (Amendments) | January 1, 2013 |
| IAS 27 Separate Consolidated financial statements (Revised) | January 1, 2013 |
| IAS 28 Investments in Associates and Joint Venture (Revised) | January 1, 2013 |
| IAS 32 Financial instruments: Presentation (Amendments) | January 1, 2013 & 2014 |
| IAS 34 Interim Financial Reporting (Amendments) | January 1, 2013 |
| IAS 36 Impairment of assets (Amendments) | January 1, 2014 |
| IAS 39 Financial instruments: Recognition and measurement (Amendments) | January 1, 2014 |

The Group expects that, except for the effects on the consolidated financial statements of amendments to IAS 19 "Employee Benefits" the adoption of the above standards and interpretations will not have any material impact on the Group's consolidated financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan for the purpose of applicability in Pakistan.

| | IASB Effective date (accounting periods beginning standards on or after) |
|--|--|
| IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendments) | July 1, 2009 |
| IFRS 9 Financial Instruments: Classification and Measurement | January 1, 2015 |
| IFRS 10 Consolidated financial statements | January 1, 2013 |
| IFRS 11 Joint Arrangements | January 1, 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | January 1, 2013 |
| IFRS 13 Fair Value Measurement | January 1, 2013 |
| IFRIC 21 Levies | January 1, 2014 |

The following interpretations issued by the IASB have been waived off by the SECP, effective January 16, 2012:

| | |
|----------|---|
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease |
| IFRIC 12 | Service Concession Arrangements |

5.2 Standards, amendments and interpretations adopted during the year

There are no amended standards and interpretations that are effective for the first time in the current year that would be expected to have a material impact on the Group.

5.3 Significant accounting estimates and judgments

The preparation of consolidated financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions in accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Group's accounting policies, management has made the following estimates and judgments which are significant to the consolidated financial statements:

| | Note |
|--|-------------------|
| Determining the residual values and useful lives of fixed assets | 5.4, 6 & 7 |
| Impairment of; | |
| > Fixed assets | 5.4, 6 & 7 |
| > Trade debts and other receivable | 5.8, 13 & 17 |
| Recognition of tax and deferred tax | 5.16, 11, 18 & 41 |
| Accounting for staff retirement benefits | 5.15 & 23.1 |

5.4 Fixed assets

5.4.1 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land, which is stated at cost.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. The rates used are stated in note 5.1 to the consolidated financial statements.

In respect of additions and deletions of assets during the year, depreciation is charged for the month of acquisition and up to the month preceding the deletion, respectively.

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are charged to statement of comprehensive income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is recognized, except for gain on sale and leaseback transactions, which is deferred and amortized over the lease term of the asset.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

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Leased

Assets held under finance leases are initially recorded at the lower of the present value of minimum lease payments under the lease agreements and the fair value of the leased assets. The related obligations under the leases less financial charges allocated to future periods are shown as a liability.

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability.

Depreciation is charged at the same rates as charged on the Group's owned assets.

Capital work-in-progress

Capital work-in-progress is stated at cost less impairment in value, if any. It consists of expenditure incurred and advances made in respect of fixed assets in the course of their erection, installation and acquisition.

5.4.2 Intangible assets

The cost of license to provide telecommunication services and computer softwares are classified as intangible assets. These are stated at cost / revalued amount less accumulated amortisation and impairment, if any. Amortisation is charged to income using straight line method over the useful economic life of intangible assets.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a Subsidiary Company at the date of acquisition. Impairment testing is performed annually in respect of the same.

5.4.3 Impairment

The carrying values of the Group's assets are reviewed for impairment at each reporting date when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

5.5 Investments

Available for sale

These are initially measured at fair value plus directly attributable transaction costs and are subsequently for-sale reserve until (i) the investment is derecognized, at which time the cumulative gain or loss is recognized in the profit and loss account, or (ii) determined to be impaired, at which time the cumulative loss is recognized in the profit and loss account.

For investments traded in active market, fair value is determined by reference to quoted market price and the investments for which quoted market is not available, or the fair value cannot be reasonably calculated, are measured at cost, subject to impairment review at each balance sheet date.

5.6 Communication stores

These are valued at the lower of cost determined on the first-in first-out method and net realisable value. Items in-transit are stated at cost comprising invoice value plus other charges paid thereon up to the balance sheet date.

5.7 Stock in trade

Stock in trade comprises of internet and voice communication cards. These are valued at lower of cost and net realizable value. Cost is determined on first-in-first out basis except for stock in transit which is stated at invoice price plus other charges paid thereon up to the balance sheet date.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

5.8 Trade debts and other receivables

These are recognized and carried at original invoice amount less an allowance for any uncollectible amounts, if any. An estimate for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written-off when identified.

5.9 Loans, advances and deposits

These are recognized at cost, which is the fair value of the consideration given. However, an assessment is made at each balance sheet date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such indication exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for the difference between the recoverable amount and the carrying value.

5.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash and cheques in hand, balances with banks and short-term investments, if any.

5.11 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Group.

5.12 Provisions

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

5.13 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized at the time when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized at the time when they are extinguished i.e., when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on derecognition of financial assets and financial liabilities are taken to profit and loss account currently.

5.14 Offsetting financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet, if the Group has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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5.15 Employees' benefits

Gratuity fund

The Group operates an unfunded gratuity scheme for its employees under "Workmen Category". Provision is made annually, to cover obligations under the plan, by way of a charge to profit and loss account, calculated in accordance with the actuarial valuation using "Projected Unit Credit Method". Actuarial gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Provident fund

The Group operates a recognized provident fund scheme for its employees. Equal monthly contributions are made, both by the Group and the employees, to the fund at the rate of 8.33% of basic salary.

Compensated absences

The Group accounts for these benefits in the period in which the absences are earned. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

5.16 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, in accordance with the Income Tax Ordinance, 2001. The tax charge as calculated above is compared with turnover tax under Section 113 of the Income Tax Ordinance, 2001, and whichever is higher is provided in the consolidated financial statements.

Deferred

Deferred tax is recognized, using the liability method, on all major temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the assets can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

5.17 Foreign currency translation

The Consolidated financial statements are presented in Pak Rupee, which is the Group's functional and presentation currency. Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the spot rates of exchange prevailing on the balance sheet date. Non-monetary assets and liabilities are measured using exchange rates that existed when the values were determined. All differences are taken to the profit and loss account.

5.18 Borrowing costs

Finance costs incurred to finance the acquisition of various licenses from Pakistan Telecommunication Authority (PTA) and the construction and installation of network assets are capitalized up to the time such assets get ready for intended use. All other borrowing costs are recognized as expense in the period in which they are incurred.

5.19 Revenue

Revenue from wireless payphone cards is recognized as the related units/credits are consumed by customers. The unutilized units/credits are carried in the balance sheet as unearned income.

Revenue from prepaid and post paid packages is recognized on accrual basis.

Revenue from connection fee is recognized on sale of connections.

Revenue from Long Distance International (LDI) license is recognized at the time the call is terminated over the Group's network in case of international incoming calls and when the calls are handed over to international operators in case of outgoing calls.

In case of sharing arrangements with local operators, proportionate share is recognized at the time of termination of calls on designated operator's network.

Revenue from broadband / data networking services is recognised upon the rendering of such services.

Return on bank balances is accrued using effective interest method.

Revenue from sale of equipment is recognised when equipment is dispatched to customers.

5.20 Interconnect charges and liability

Interconnect charges on all units / credits consumed in respect of wireless payphones are booked as liability on the basis of corresponding bills from interconnect partners except for the cases where management believes, based on its information system and records, that interconnect charges are over billed by the interconnect partners, in which case the liability is recorded on the basis of the Group's information system and records.

5.21 Dividend and other appropriation of reserves

Dividends and appropriation to general reserves are recognized in the Consolidated financial statements in the period in which these are approved.

| Note | June 30, 2013 | June 30, 2012 |
|------|-------------------|------------------|
| | ----- | ----- |
| | (Rupees in '000') | ----- |

6. PROPERTY, PLANT AND EQUIPMENT

| | | | |
|--------------------------|-----|------------------|------------------|
| Operating fixed assets | 6.1 | 973,329 | 1,316,018 |
| Capital work-in-progress | 6.2 | 477,994 | 542,169 |
| | | <u>1,451,323</u> | <u>1,858,187</u> |

| Note | Cost | | | | Accumulated depreciation | | | W.D.V. As at June 30, 2012 | Depreciation rate per annum |
|--|---------------------------|-------------------------|-------------------------------|---------------------------|--------------------------|----------------------------------|---------------------------|-------------------------------------|-----------------------------------|
| | As at July 01, 2011 | Additions/ Transfers | (Disposal/ *derecognition) | As at June 30, 2012 | For the year | (On disposals/ transfers*) | As at June 30, 2012 | | |
| | (Rs. in '000) | | | | | | | | |
| Owned | | | | | | | | | |
| | 3,020 | - | - | 3,020 | - | - | - | 3,020 | - |
| Freehold land | | | | | | | | | |
| | 3,900 | - | (3,900) | - | - | (3,900) | - | - | 7.70% |
| Leasehold land | | | | | | | | | |
| | 3,653 | - | - | 3,653 | - | - | 3,653 | - | 20% |
| Leasehold improvements | | | | | | | | | |
| | 625 | - | - | 625 | 33 | - | 344 | 281 | 5% |
| Building on freehold land | | | | | | | | | |
| Apparatus, plant and equipment | 6,292,316 | 53,887 | - | 6,346,203 | 4,683,285 | 405,868 | 5,089,153 | 1,257,050 | 5-33% |
| | 30,875 | - | - | 30,875 | - | - | 30,875 | - | 25% |
| Sign boards | | | | | | | | | |
| | 61,312 | 3,659 | - | 64,971 | 38,753 | 4,642 | 43,395 | 21,576 | 10% |
| Furniture, fixtures and office equipment | | | | | | | | | |
| | 77,548 | 5,978 | - | 83,526 | 67,890 | 7,292 | 75,182 | 8,344 | 33% |
| Computers and related accessories | | | | | | | | | |
| | 24,854 | 2,770 | (2,634) | 26,630 | 20,512 | 1,552 | (1,989) | 21,715 | 20% |
| Vehicles | | | | | | | | | |
| June 30, 2012 | 6,498,103 | 66,294 | (6,534) | 6,559,503 | 4,849,179 | 419,387 | (5,889) | 5,264,317 | 1,295,186 |
| | | 1,640 | | | | | 1,640 | | |
| Leased | | | | | | | | | |
| | 131,442 | - | - | 131,442 | 98,849 | 11,761 | - | 110,610 | 20,832 |
| Apparatus, plant and equipment | | | | | | | | | |
| | 2,953 | - | - | 2,953 | 2,627 | 325 | - | 1,312 | - |
| Vehicles | | | | | | | | | |
| | 134,395 | (1,640) | - | 132,755 | 101,476 | 12,086 | (1,640) | 111,922 | 20,832 |
| June 30, 2012 | 6,632,498 | 66,294 | (6,534) | 6,692,258 | 4,950,655 | 431,473 | (5,889) | 5,376,239 | 1,316,018 |

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6.1.1 These include:

6.1.1.1 Equipment, costing Rs.2,427.592 (2012: Rs.2,383.345) million, having a net book value of Rs.121.537 (2012: Rs.128.473) million, which are in the possession of the customers of the Group in the ordinary course of business.

6.1.1.2 The following assets were disposed off during the year.

| Description | Cost | Accumulated depreciation | Written down value (Rs. in '000') | Sale proceeds | Gain (loss) on disposal | Mode of sale | Particulars of buyers | Note | June 30, 2013 | June 30, 2012 |
|-----------------|--------------|--------------------------|--------------------------------------|---------------|-------------------------|--------------|-----------------------------------|------|---------------|---------------|
| | | | | | | | | | | |
| <u>Vehicles</u> | | | | | | | | | | |
| Honda Civic | 1,640 | 1,640 | - | 1,400 | 1,400 | Negotiation | M. Haseeb Siddique Ahmed, Karachi | | | |
| June 30, 2013 | <u>1,640</u> | <u>1,640</u> | <u>-</u> | <u>1,400</u> | <u>1,400</u> | | | | | |

6.1.2 Depreciation for the year has been allocated as follows:

| | | | |
|--|----|----------------|----------------|
| Direct costs | 35 | 382,409 | 417,536 |
| Distribution costs and administrative expenses | 36 | 12,417 | 13,937 |
| | | <u>394,826</u> | <u>431,473</u> |

6.2 Capital work-in-progress

| | Owned Equipment | Advances to suppliers | Total |
|-----------------------------|-------------------------------|-----------------------|----------------|
| | ----- (Rupees in '000') ----- | | |
| As at July 01, 2012 | 517,084 | 25,085 | 542,169 |
| Transfer to profit and loss | (39,090) | (25,085) | (64,175) |
| June 30, 2013 | <u>477,994</u> | <u>-</u> | <u>477,994</u> |
| June 30, 2012 | <u>517,084</u> | <u>25,085</u> | <u>542,169</u> |

7. INTANGIBLE ASSETS

| | | | |
|---|-----|------------------|------------------|
| Intangible assets | 7.1 | 2,067,105 | 2,248,686 |
| Capital work in progress software development | | 540 | - |
| | | <u>2,067,645</u> | <u>2,248,686</u> |

7.1 The statement of intangibles assets is as follows:

| Note | Cost | | | | Accumulated depreciation | | | W.D.V. Depreciation | |
|---------------|----------------------------|---------------------|---------------------|---------------------|--------------------------|--------------|---------------------|---------------------|------------------|
| | As at July 01, 2012 | As at June 30, 2013 | As at July 01, 2012 | As at June 30, 2013 | For the year | On disposals | As at June 30, 2013 | As at June 30, 2012 | rate per annum % |
| | ----- (Rs. in '000') ----- | | | | | | | | |
| 7.1 | 3,345,096 | 3,345,096 | 1,185,479 | 1,365,448 | 179,969 | - | 1,979,648 | 1,979,648 | 16-20 |
| 7.2 | 29,029 | 29,029 | 10,320 | 11,868 | 1,548 | - | 17,161 | 17,161 | 18-20 |
| | 38,836 | 38,836 | 38,724 | 38,788 | 64 | - | 48 | 48 | 5 |
| | 116,864 | 116,864 | 46,616 | 46,616 | - | - | 70,248 | 70,248 | |
| June 30, 2013 | <u>3,529,825</u> | <u>3,529,825</u> | <u>1,281,139</u> | <u>1,462,720</u> | <u>181,581</u> | <u>-</u> | <u>2,067,105</u> | <u>2,067,105</u> | |
| | ----- (Rs. in '000') ----- | | | | | | | | |
| Note | Cost | | | | Accumulated depreciation | | | W.D.V. Depreciation | |
| | As at July 01, 2011 | As at June 30, 2012 | As at July 01, 2011 | As at June 30, 2012 | For the year | On disposals | As at June 30, 2012 | As at June 30, 2011 | rate per annum % |
| | ----- (Rs. in '000') ----- | | | | | | | | |
| 7.1 | 3,345,096 | 3,345,096 | 1,005,510 | 1,185,479 | 179,969 | - | 2,159,617 | 2,159,617 | 16-20 |
| 7.2 | 29,029 | 29,029 | 8,772 | 10,320 | 1,548 | - | 18,709 | 18,709 | 18-20 |
| | 38,836 | 38,836 | 38,660 | 38,724 | 64 | - | 112 | 112 | 5 |
| | 116,536 | 116,864 | 46,616 | 46,616 | - | - | 70,248 | 70,248 | |
| June 30, 2012 | <u>3,529,497</u> | <u>3,529,825</u> | <u>1,099,558</u> | <u>1,281,139</u> | <u>181,581</u> | <u>-</u> | <u>2,248,686</u> | <u>2,248,686</u> | |

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These represent cost of non-exclusive licenses granted by the PTA to the Group for providing certain telecommunication services in the specified regions of the country and for establishing, maintaining and operating a telecommunication system, in accordance with the terms and conditions of the licenses. The licenses are effective for a period of 16-20 years, commencing August 04, 2004.

7.2 This represents cost of non-exclusive license granted by the PTA to the Group for providing the LDI telecommunication services in the country for a effective period 18-20 years, commencing July 27, 2004.

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 7.3 Amortization for the year has been allocated as follows: | | | |
| Direct costs | 35 | 181,517 | 181,517 |
| Distribution costs and administrative expenses | 36 | 64 | 64 |
| | | <u>181,581</u> | <u>181,581</u> |

8. LONG-TERM LOANS AND ADVANCES

| | | | |
|--|-----|--------------------------------|--------------------------------|
| Advances - unsecured (considered good) Pakistan Telecommunication Company Limited | 8.1 | 5,820 | 5,820 |
| Considered doubtful Provision against doubtful long-term advances | | <u>1,929</u> <u>(1,929)</u> | <u>1,929</u> <u>(1,929)</u> |
| | | <u>5,820</u> | <u>5,820</u> |

8.1 These represent advances given to Pakistan Telecommunication Company Limited (PTCL) for obtaining links and circuits for different projects of the Group, which are adjusted after these are closed.

9. LONG-TERM DEPOSITS

| | | | |
|---|-----|--------------------------------|--------------------------------|
| Security deposits | | | |
| Line deposits – PTCL | 9.1 | 51,036 | 52,839 |
| Rented premises | | 5,678 | 5,678 |
| China Orient Telecom Satellite Group | 9.2 | 6,473 | 6,473 |
| Intelsat Corporation | 9.3 | 3,134 | 3,135 |
| New Skies Satellite B.V. | 9.4 | <u>2,376</u> | <u>22,662</u> |
| SpaceCom International LLC. | | - | 17,407 |
| Others | | <u>2,460</u> | <u>460</u> |
| | | 4,836 | 40,529 |
| Current portion shown under current assets | 15 | <u>(2,376)</u> | <u>(36,928)</u> |
| | | <u>2,460</u> | <u>3,601</u> |
| | | 68,781 | 71,726 |
| Considered doubtful Provision against long-term deposits considered doubtful | 9.5 | <u>1,729</u> <u>(1,729)</u> | <u>1,729</u> <u>(1,729)</u> |
| | | <u>68,781</u> | <u>71,726</u> |

- 9.1 These includes deposits given to Pakistan Telecommunication Company Limited (PTCL) at the time of obtaining DPLC links and circuits for different projects of the Group and are adjusted after the same are closed.
- 9.2 This represents amount given to China Orient Telecom Satellite Company Limited, a foreign satellite bandwidth provider, as a security deposit for the use of satellite bandwidth.
- 9.3 This represents security deposit given to Intelsat Corporation, a foreign Satellite Bandwidth Provider, representing one month's charge for the use of 10 MHz bandwidth, availed from IS904 Space Satellite.
- 9.4 This includes security deposit given to New Skies Satellite B.V., a foreign Satellite Bandwidth provider, representing one month's monthly recurring charges for the use of 52MHz bandwidth, availed from the NSS Space Satellite. This deposit will be adjusted against recurring charge for the month of September 2013, amounting to Rs.2.376 million.

| Note | June 30, 2013 | June 30, 2012 |
|------|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |

- 9.5 Provision against long-term deposits considered doubtful

| | | |
|--------------------------------------|--------------|--------------|
| Balance at the beginning of the year | <u>1,729</u> | <u>1,729</u> |
|--------------------------------------|--------------|--------------|

10. LONG-TERM INVESTMENTS

| | | | |
|----------------------------------|------|------------------|----------------|
| Available-for-sale | | | |
| Augere Holding (Netherland) B.V. | 10.1 | 480,630 | 480,630 |
| Provision for impairment | | <u>(480,630)</u> | <u>-</u> |
| | | <u>-</u> | <u>480,630</u> |

- 10.1 Pursuant to an "Amended and Restated Network Agreement" dated April 26, 2010, the Group, during the year ended June 30, 2012, received class 'A' Preference Ordinary shares of Augere Holdings (Netherlands) B.V. amounting to US\$5.305 (2012: US\$ 5.305 equivalent to Rs.480.630) million, against issuance of a Credit Note which requires the Group to provide services to Augere Pakistan (Private) Limited, a subsidiary of the investee company. However, the fair value of such investment could not be determined for the purpose of initial recognition as required under IAS - 39 "Financial Instruments: Recognition and Measurement". In the absence of any information about the financial health of the company, the management does not expect any earning and cash flow in foreseeable future from the investment therefore as a matter of prudence, during the year management has made full provision for impairment against the above investment (2012: Nil).

11. DEFERRED TAXATION

| | | | |
|-----------------------------------|--|------------------|------------------|
| Deferred tax credits arising on: | | | |
| Accelerated tax depreciation | | (53,587) | (124,422) |
| Amortisation of intangible assets | | (375,987) | (315,778) |
| Leases | | - | (7,202) |
| | | <u>(429,574)</u> | <u>(447,402)</u> |
| Deferred tax debits arising from: | | | |
| Retirement benefits | | 4,059 | 3,018 |
| Short-term provisions | | 376,855 | 126,269 |
| Tax losses brought forward | | 470,768 | 472,316 |
| | | 851,682 | 601,603 |
| | | <u>422,108</u> | <u>154,201</u> |

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| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 |
|--|------|---|------------------|
| 12. COMMUNICATION STORES | | | |
| Stores | | 133,753 | 101,774 |
| Provision for slow moving stores | 12.1 | (10,742) | (10,742) |
| | | <u>123,011</u> | <u>91,032</u> |
| Consumables | | 2,502 | 3,128 |
| | | <u>125,513</u> | <u>94,160</u> |
| 12.1 Provision against slow moving stores: | | | |
| Balance at the beginning of the year | | 10,742 | 10,474 |
| Charge for the year | 35 | - | 268 |
| | | <u>10,742</u> | <u>10,742</u> |
| 13. TRADE DEBTS | | | |
| Unsecured - considered good | | | |
| Related parties ¹ | 13.1 | 22,429 | 15,743 |
| Others | | 706,373 | 468,158 |
| Considered doubtful | | 275,903 | 275,903 |
| Provision for debts considered doubtful | 13.2 | (275,903) | (275,903) |
| | | - | - |
| | | <u>728,802</u> | <u>483,901</u> |
| 13.1 Related parties | | | |
| Arfeen International (Private) Limited | | 1,456 | 1,357 |
| World Trade Center (Private) Limited | | 637 | - |
| Grand Leisure Corporation (Private) Limited | | 1,031 | 1,196 |
| Envicrete Limited | | 879 | 693 |
| Pakcom Limited | | 18,414 | 12,497 |
| Port Grand Limited | | 12 | - |
| | | <u>22,429</u> | <u>15,743</u> |
| 13.2 Provision for debts considered doubtful: | | | |
| Opening balance | | 275,903 | 272,754 |
| Charge for the year | | - | 21,641 |
| Provision written off against trade debts | | - | (18,492) |
| | | <u>275,903</u> | <u>275,903</u> |

13.3 As at June 30, 2013, the aging analysis of unimpaired trade debts is as follows:

| | Total | Neither past due nor impaired | Past due but not impaired | |
|------------------|----------------|-------------------------------|-------------------------------|----------------|
| | | | > Three months up to one year | Above one year |
| (Rupees in '000) | | | | |
| Others | 706,373 | 325,368 | 225,706 | 155,299 |
| Related parties | 22,429 | 434 | 1,430 | 20,565 |
| June 30, 2013 | <u>728,802</u> | <u>325,802</u> | <u>227,136</u> | <u>175,864</u> |
| Others | 468,158 | 203,560 | 143,317 | 121,281 |
| Related parties | 15,743 | 2,936 | 1,304 | 11,503 |
| June 30, 2012 | <u>483,901</u> | <u>206,496</u> | <u>144,621</u> | <u>132,784</u> |

Note June 30, 2013 June 30, 2012
----- (Rupees in '000') -----

14. LOANS AND ADVANCES

Loans – unsecured (considered good)

| | | | |
|--|------|---------------|---------------|
| Employees | | - | 113 |
| Advances – unsecured (considered good) | | | |
| Executives | 14.1 | 3,282 | 3,092 |
| Employees | | 28,111 | 20,566 |
| Suppliers | | 34,936 | 29,192 |
| | | <u>66,329</u> | <u>52,850</u> |

Considered doubtful

| | | | |
|--|------|---------------|---------------|
| Executives | | 626 | 626 |
| Employees | | 967 | 967 |
| Suppliers | | 19,443 | 19,443 |
| Provision for advances considered doubtful | 14.2 | (21,036) | (21,036) |
| | | <u>66,329</u> | <u>52,963</u> |

14.1 The maximum aggregate amount due from the executives at the end of any month during the year was Rs.4.553 (2012: Rs.3.238) million.

14.2 Provision for advances considered doubtful

| | | |
|-----------------|---------------|---------------|
| Opening balance | <u>21,036</u> | <u>21,036</u> |
|-----------------|---------------|---------------|

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 15. DEPOSITS AND PREPAYMENTS | | | |
| Deposits | | | |
| Current portion of long-term lease deposits | 9 | - | 13,158 |
| Current portion of long term deposits | 9 | 2,376 | 36,928 |
| Earnest money | | 9,038 | 6,936 |
| Margin against guarantee | | 2,900 | 2,900 |
| Others | | 1,525 | 1,450 |
| | | <u>15,839</u> | <u>61,372</u> |
| Considered doubtful: | | | |
| Earnest money | | 1,770 | 1,770 |
| Provision against deposits considered doubtful | | (1,770) | (1,770) |
| | | - | - |
| Prepayments | | | |
| Rent | | 12,555 | 7,595 |
| International Traffic Monitoring system | | 86,674 | - |
| Others | | 723 | 633 |
| | | <u>99,952</u> | <u>8,228</u> |
| | | <u>115,791</u> | <u>69,600</u> |

16. ACCRUED MARK-UP

| | | | |
|--|---------------|---------------|---------------|
| Due from a bank | 16.1 | 48,587 | 48,587 |
| Mark-up on current accounts with related parties | 16.2 & 17.1.1 | 20,876 | 16,170 |
| Others | | 549 | 549 |
| | | <u>70,012</u> | <u>65,306</u> |

16.1 This represents amount due from a commercial bank in respect of funds raised through Term Finance Certificates, held by the said bank since April 20, 2005 whereas mark-up paid to the Group, commenced August 01, 2005. A claim in respect of the above was lodged by the Group with the bank during the year ended June 30, 2005, which is pending settlement therewith. The management is currently making necessary efforts to recover the aforesaid mark-up and is, therefore, confident about the recovery of the same.

Further, during the year ended June 30, 2008, an additional claim of Rs.194.494 million was lodged by the Group with the said bank as compensation for delay in the receipt of the above referred amount. However, the management has not accrued the same in these financial statements as a matter of prudence.

16.2 Related parties

| | | |
|---|---------------|---------------|
| Instaphone (Private) Limited | 1,222 | 765 |
| Instaphone Infrastructure (Private) Limited | 6,205 | 6,355 |
| Arfeen International (Private) Limited | 13,449 | 8,432 |
| Grand Leisure Corporation (Private) Limited | - | 114 |
| Envicrete Limited | - | 84 |
| Pakcom Limited | - | 258 |
| Others | - | 162 |
| | <u>20,876</u> | <u>16,170</u> |

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| | Note | June 30, 2013 | June 30, 2012 |
|---|---------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 17. OTHER RECEIVABLES | | | |
| Considered good | | | |
| Related parties | 17.1 | 7,479 | 26,574 |
| Others: | | | |
| Pakistan Telecommunication Company Limited | | | |
| Karachi Relief Rebate | 17.2 | 651,541 | 651,541 |
| Interconnect discount | 17.3 | 28,701 | 28,701 |
| WPS - under protest payments | 27.1 | 289,725 | 289,725 |
| Leased lines and upfront connection charges | 17.4 | 131,517 | 131,517 |
| LL & LDI charges – under protest payments | 17.5 | - | 200,000 |
| Wire line | 17.2(a) | 48,712 | 48,712 |
| Multi-metering | 17.2(a) | 18,287 | 18,287 |
| | | 1,168,483 | 1,368,483 |
| Amount withheld by PTCL against PTA-Escrow | | 171,446 | - |
| Pakistan Telecommunication Authority | 17.6 | 2,115,921 | 2,115,921 |
| Claim against a bank | 17.7 | 998 | 998 |
| Insurance claims | 17.9 | 4,000 | 3,775 |
| Due from a Contractor | | 2,571 | 785 |
| Deposit with FBR under Tax Amnesty scheme | 17.12 | 2,991 | 2,991 |
| Others | | 2,904 | 3,321 |
| | | 2,300,831 | 2,127,791 |
| | | 3,469,314 | 3,496,274 |
| Considered doubtful | | | |
| Due from PTCL | 17.10 | 10,361 | 10,361 |
| Due from Zonal employees | | 15,874 | 15,874 |
| Insurance claim | 17.9 | 8,628 | 8,628 |
| LL & LDI charges - under protest payments | 17.5 | 200,000 | - |
| Others | | 4,369 | 4,369 |
| | | 239,232 | 39,232 |
| Provision for other receivables considered doubtful | 17.11 | (239,232) | (39,232) |
| | | - | - |
| | | 3,476,793 | 3,522,848 |
| 17.1 Related parties | | | |
| Pakcom Limited | | 1,605 | 1,621 |
| Instaphone Infrastructure (Private) Limited | | - | 14,455 |
| Paktel Limited | | 1,228 | - |
| Envicrete Limited | | 850 | 699 |
| Grand Leisure Corporation (Private) Limited | | 747 | 747 |
| Arfeen International (Private) Limited | | - | 6,003 |
| Instaphone (Private) Limited | | 3,049 | 3,049 |
| | | 7,479 | 26,574 |

17.1.1 The above amounts due from related parties represents current account balances which are recoverable on demand. These carry mark-up at the rate of 6 months KIBOR plus 3.5% (2012: 6 months KIBOR plus 3.5%) per annum (note 16.2).

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17.2(a) In the interest of public safety, the Government of Pakistan (GoP) is empowered to close transmission of all messages/services, subject to certain conditions. Section 54 of the Pakistan Telecommunication (Reorganisation) Act 1996, states that the GoP can do so "provided that the GoP may compensate any licensee whose facilities or services are affected by any action under that section". Under these powers, the GoP shut down the service of the Group from July 1995 to January 1997. The Group served a notice to the GoP for compensation and as a quid pro quo and in consideration of the Group having agreed to withdraw its claim, the GoP offered the Karachi Relief Rebate Package. This arrangement was duly approved by the Cabinet and announced, on behalf of GoP, by the PTA.

As per the award of the GoP, the PTCL started paying the Karachi Relief Rebate up to June 30, 1998 and thereafter, unilaterally, the PTCL decided to discontinue payments against the said package.

During the year ended June 30, 2000, the Group filed a law suit against the PTCL in the High Court of Sindh (the Court) for the recovery of Rs.71.276 million accrued up to October 1999 and consequential losses thereon, aggregating to Rs.2,261.924 million. The Court, during the year ended June 30, 2002, on an application filed by the Group, passed an interim order in favor of the Group and appointed a firm of Chartered Accountants for the determination of the actual amount receivable (final sum) from the PTCL. The said firm calculated the relief rebate and interconnect discount in accordance with the direction of the Court, containing various amounts determined under various alternatives, for the period commencing January 1997 to August 2001.

The Group contends that the relief rebate allowed to it through the PTA's letter, dated January 20, 1997, is of a continuing nature as no cessation date is mentioned in that letter. The Group further contends that the relief package was approved by the GoP after negotiations between the GoP and the Group.

The total amount due to be recovered on account of relief rebate amounted to Rs.698.690 million up to June 30, 2006. On a prudent basis, the Group accrued relief package up to June 30, 2005, aggregating to Rs.651.541 million, after which the practice of accruing the said relief was discontinued. In the view of the legal advisor of the Group, the Group has a strong case and the likelihood of the Group losing the case is remote. Hence, the management is confident about the realisation of the said amount together with the amount receivable from the PTCL in respect of wireline and multi-metering of Rs.48.712 (June 30, 2012 : Rs.48.712) million and Rs.18.287 (June 30, 2012 : Rs.18.287) million, respectively, and considers the recovery of these sums to be virtually certain. Accordingly, it has not made any provision against the above referred sums, pending a final decision by the Court in this matter.

17.2(b) During the year ended June 30, 2002, the PTCL filed a law suit against the Group for the recovery of Rs.334.313 million, alleging and disputing the relief rebate claimed / adjusted by the Group. In the opinion of the legal advisor of the Group, if it is decided by the Court that the Group is not entitled to the Karachi Relief Rebate and the decision in this case is against the Group, then the Group would have to pay only the above amount on account of Karachi Relief Rebate. If, however, it was concluded by the Court that the relief rebate is applicable, then, no amount would be liable to be paid by the Group to the PTCL but in fact the Group would be entitled to recover certain amounts as claimed in the law suit, discussed in (a) above. As per the above-referred legal advisor, there is likelihood that the Plaintiff will not succeed in its claim in this suit. Accordingly, pending the decision of the Court in this respect, the Group has not made any provision for the aforesaid claim in these financial statements.

The Court, in its order dated June 25, 2003, ordered the Group not to create third party interest on its fixed assets as well as undertakings except in the ordinary course of business till the disposal of this case.

17.3 This represents the amount of interconnect discount which is subject to the determination of the final sum, as stated in note 17.2 (a) above. The Group is confident that it will recover the entire amount of interconnect discount from the PTCL and, hence, no provision has been made there against in these financial statements.

- 17.4 These represent payments made by the Group to the PTCL against leased lines and upfront connection charges erroneously billed by the PTCL under WPS. The Group claimed the said amounts through an application filed in the High Court of Sindh during the year ended June 30, 2008, for the recovery thereof from the PTCL. The proceedings in this lawsuit were subsequently stayed and the dispute referred for arbitration in the Islamabad High Court, which is currently in progress. The Group is confident that it will recover the entire amount from the PTCL and, hence, no provision has been made there against in these financial statements.
- 17.5 During the year ended June 30, 2007, the Group paid a sum of Rs.200 million to the PTCL on its demand in order to restore the services blocked by the PTCL. Thereafter, as a result of a settlement agreement between PTCL and the Group, PTCL agreed that after reconciliation of the disputed amounts under LL and LDI, any dues payable to the Group by the PTCL will be paid immediately. However, pending the said reconciliation the management has decided to made full provision against the said amount (2012: Nil) as a matter of prudence.
- 17.6 In March 2007, the PTA issued show cause notices to eight telecom companies, including the Group, in respect of Access Promotion Contribution (APC) for Universal Service Fund (USF) under the AP Rules, 2004 and AP Regulations, 2005. In case of the Group, the amount demanded was Rs.29.473 million. The Group responded to the show cause notice and appeared before the Authority through its Counselor, contending that the AP Rules, 2004 and the AP Regulations, 2005 were ultra vires and were of no legal effect whatsoever. During the year ended June 30, 2008, the PTA issued a final determination, upholding the said show cause notice and demanded the amount therein. A stay order against the PTA determination was obtained by the Group through the Islamabad High Court and repatriation was filed against the PTA and others. During the year ended June 30, 2009, the Islamabad High Court decided the case in favour of the PTA. The Group, along with other LDI licensees, as a result thereof has filed an appeal in the Supreme Court of Pakistan, which is in the initial stages of hearing.

Further, the PTA demanded on behalf of the USF a sum of Rs.4,429.269 million up to June 30, 2013 (June 30, 2012: Rs.4,282.631 million) in respect of APC for USF on the basis of international termination traffic by the Group up to Sep 30, 2012, in addition to Rs.29.473 million, aggregating to Rs.4,458.742 million (June 30, 2012: Rs.4,312.104 million), against which the Group paid a sum of Rs.2,115.921 million under protest (June 30, 2012: Rs.2,115.921) million (including forced payments in respect of research and development and RBS), comprising (a) Rs.729.479 million paid by the Group during the year ended June 30, 2010 and (b) a sum of Rs.1,200.000 million paid by the Contractor (note 21) to the PTA on behalf of the Group, during the year ended June 30, 2010 and (c) Rs.186.442 million paid up to June 30, 2009. Pending a final decision in this matter, the Group has recorded the said sum as due from the PTA under other receivables and has not adjusted the same nor any provision has been made for the remaining sum of Rs. 2,342.821 million (June 30, 2012: Rs. 2,196.183) million in these financial statements as management, based on the legal opinion received from its legal advisor in this regard, is confident that it will succeed in recovering the above referred sum.

In addition to, and without prejudice to its claims given above, the Group instituted further proceedings before the Sindh High Court at Karachi against the PTA and others on the basis that it has not correctly adjusted payments received from the Group, and that it is not following the provisions of Access Promotion Rules, 2004 and Access Promotion Regulations, 2005, while determining the said charge and as a consequence demanding illegal and inflated dues from the Group. The Group has obtained interim injunctions from the Court preventing any adverse actions from PTA. The PTA has yet to file any response in these matters in the Court.

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Further, during the year June 2012, in compliance with the directive of Ministry of Information Technology (MoIT) dated August 13, 2012 and the instructions issued there under by the PTA, vide letter No. 04 01/12/(AP/CA) PTA, dated August 23, 2012, for the establishment of International Clearing House Exchange (ICH) [refer not 20.1] between the LDI Operators and PTCL, which shall come into effect from October 1, 2012, all LDI Operators have authorised PTCL to terminate all Pakistan incoming traffic on their behalf and not via their own networks. As per the terms of the ICH agreement, PTCL will retain 100% APC from the settlement rate which will be directly disbursed on account of APCL, APC for USF and MTR/MTR-I as per the existing rules and regulations on behalf of the Group. However, the pre-ICH claims of PTA on account of APC for USF against such LDI Operators, where these are still pending, will remain the individual LDI Operators' responsibility, and will be settled through legal process. Furthermore, LDI operators will open a PTA-LDI Escrow account with PTA on individual basis and PTCL shall deposit 15% of respective net LDI share collected under this agreement in the said accounts, and the same can be utilized to settle the alleged outstanding claims of PTA on account of APC for USF if the decision of the Court is against the Group.

However, this arrangement was challenged by Competition Commission of Pakistan (CCP) as being anticompetitive and thus illegal through its order dated 30 April 2013 and has imposed penalty @ 7.5% of annual turnover of each LDI. The Group has filed a Constitutional Petition in the High Court of Sindh whereby the Honorable court was pleased to suspend the operations of the said order by CCP.

17.7 This represents amount due from a bank in respect of the PTCL bills paid by the Group to the bank but not passed over to the PTCL by the bank. The Group has filed a lawsuit in the Court for the recovery of Rs.0.998 million (2012: Rs.0.998 million) and damages, aggregating to Rs.8.245 (2012: Rs.8.245) million, against the bank. Accordingly, pending a final decision by the Court in this regard, no provision has been made for the above referred sum in these financial statements.

17.8 This represents amount over billed by the PTCL and paid by the Group in respect of optical fibre lines based on the rates applicable during the relevant billing periods. A claim in respect of the above is pending settlement. However, pending the settlement, as a matter of prudence, the management has made full provision against the above claim.

| | Note | June 30, 2013 | June 30, 2012 |
|-----------------------------------|------|-------------------------------|------------------|
| | | ----- (Rupees in '000)' ----- | |
| 17.9 Insurance claim | | | |
| Insurance claim receivable | | 12,628 | 12,403 |
| Provision for the insurance claim | | | |
| Opening balance | | (8,628) | (1,210) |
| Provision for the current year | | - | (7,418) |
| | | (8,628) | (8,628) |
| | | 4,000 | 3,775 |

17.10 This represents amount over billed by the PTCL and paid by the Group in respect of optical fibre lines based on the rates applicable during the relevant billing periods. A claim in respect of the above is pending settlement. However, pending the settlement, as a matter of prudence, the management has made full provision against the above claim.

17.11 Provision for other receivables considered doubtful

| | | |
|---------------------------------|---------|---------|
| Opening balance | 39,232 | 33,261 |
| Provision for insurance claims | - | 7,418 |
| Provision for other receivables | 200,000 | - |
| Written back during the year | - | (1,447) |
| | 239,232 | 39,232 |

17.12 During the year ended June 30, 2012, the Assistant Commissioner Income Tax adjudged the Supernet Limited as assesses in default for non deduction of withholding tax u/s 153 of the Income Tax Ordinance, 2001, for the tax year 2004 and demanded Rs.2.797 million in respect of tax not deducted and Rs. 2.414 million in respect of default surcharge of the same. The Group filed an appeal before the Commissioner (Appeals) which was rejected. The Group filed second appeal before the Tribunal, which is pending adjudication and made a payment of Rs. 2.605 million, being 50% of above stated tax demand. Later on the Group opted to avail benefit of tax Amnesty scheme vide Notification SRO 547/(I)/2012 dated May 22, 2012 in respect of waiver of default surcharge and made further payment of Rs.191,576 and informed the Taxation Officer that since the Group has paid the original tax demand, the default surcharge stood waived. The Taxation officer rejected the Group's plea and demanded the payment of default surcharge. Group filed a appeal before the Commissioner(Appeals) which was rejected. The Group had filed second appeal before the Tribunal. The Tribunal after hearing remanded back the case to learned Commissioner Inland Revenue (Appeals) for careful consideration of the evidence of payment of tax by the Group. As per the legal advisor, on the conclusion of pending proceedings the tax paid by the Group would become refundable.

| | Note | June 30, 2013 | June 30, 2012 |
|---|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| 18. TAXATION – net | | | |
| Advance income tax | | 192,488 | 192,477 |
| Provision for taxation - current | | (18,037) | (27,882) |
| | | <u>174,451</u> | <u>164,595</u> |
| 19. SHORT-TERM INVESTMENT | | | |
| Held to maturity | | | |
| Term deposit receipts | | - | 34,180 |
| | | <u>-</u> | <u>34,180</u> |
| 19.1 These carried interest rate of 10.2% (2012: 11.5%) per annum and have been matured in August 2012. | | | |
| 20. BANK BALANCES | | | |
| Cash at banks: | | | |
| In current accounts | | | |
| Local currency | | 60,944 | 4,164 |
| Foreign currency | | 9,215 | 4,524 |
| | | <u>70,159</u> | <u>8,688</u> |
| In saving accounts | | | |
| Local currency | 20.1 | 29,890 | 9,520 |
| Cash and cheques in hand | | 1,830 | 3,268 |
| | | <u>101,879</u> | <u>21,476</u> |

20.1 These carry mark-up at rates, ranging between 6% and 8% (2012: 5% and 6%) per annum.

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|---|------------------|
| | | ----- (Rupees in '000') ----- | |
| 21. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL | | | |
| June 30, 2013 | | June 30, 2012 | |
| Number of shares | | | |
| 300,000,000 | | 300,000,000 | |
| | | Ordinary shares of Rs.10 each fully paid in cash | |
| | | 3,000,000 | 3,000,000 |

21.1 As at the end of the current year, 91,357,157 (2012: 105,207,157) Ordinary shares of Rs.10 each, amounting to Rs.913,571,570 (2012: Rs.1,052,071,570), were held by the related parties of the Group.

22. LONG-TERM LOANS

Secured

| | | | |
|---|------|----------------|----------------|
| From banks and financial institutions | | | |
| Local currency loan – I | 22.1 | - | 98,500 |
| Local currency loan – II | 22.2 | 9,680 | 9,680 |
| Local currency loan – III | 22.3 | 205,667 | 205,667 |
| | | <u>215,347</u> | <u>313,847</u> |
| Current maturity of local currency loans shown under current liabilities | 32 | (61,243) | (9,680) |
| | | <u>154,104</u> | <u>304,167</u> |

22.1 This represents a local currency loan obtained by the Group from a commercial bank for a period of five years, inclusive of eighteen months grace period. It was repayable in eight semi-annual installments commencing November 23, 2009. The loan was restructured during the year ended June 30, 2010, and was now repayable as a lump sum on May 23, 2014. The loan carried mark-up at the rate of one year KIBOR plus 2.10% (2012: one year KIBOR plus 2.10%) per annum. It was secured against pari passu charge over the present and future fixed assets of the Group to the extent of Rs.467.000 (2012: Rs.467.000) million. During the year, this loan has been repaid in full by the Group.

22.2 During the year ended June 30, 2008, the Group arranged a running finance facility from a commercial bank amounting to Rs.100 million under an agreement dated March 31, 2008. During the year ended June 30, 2010, the said running financing facility was restructured as a medium term finance facility repayable in eighteen monthly installments, commencing July 1, 2010. The loan carries mark-up at the rate of one month KIBOR plus 2.00% (2012: one month KIBOR plus 2.00%) per annum. It is secured against pari passu charge over the present and future fixed assets of the Group to the extent of Rs.116.670 (2012: Rs.116.670) million.

22.3 The Group in prior years had obtained a local currency loan from a commercial bank for a period of five years, inclusive of eighteen months grace period repayable in eight semi-annual installments commencing July 24, 2008. The loan was restructured during the year ended June 30, 2010 repayable in eight semi-annual installments, commencing January 23, 2010. During the year ended June 30, 2012, the facility was restructured again by merging the running finance facility into demand finance and is repayable in five semi-annual installments starting from July 23, 2013. This loan carries mark-up at the rate of six months KIBOR plus 3.5% (2012: six months KIBOR plus 3.5%) per annum. It is secured against pari passu charge over the present and future fixed assets of the Group to the extent of Rs.467.000 (2012: Rs.467.000) million.

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 23. REDEEMABLE CAPITAL | | | |
| Secured | | | |
| Term Finance Certificates | 23.1 | 880,595 | 881,020 |
| Current maturity shown under current liabilities | 32 | (360,215) | (104,860) |
| | | <u>520,380</u> | <u>776,160</u> |

23.1 This represents listed Term Finance Certificates (TFC's) issued by the Group for the purposes of acquiring radio spectrum frequencies from the PTA and expanding/upgrading new WLL network redeemable in ten unequal semi-annual installments, commencing November 2005 with a semi-annual payment of mark-up at a rate of six months KIBOR plus 3.75% per annum with the last payment on November 27, 2010. However, the issue was restructured on two instances with the consent of TFC holders without penalties. Under the revised terms balance amount is repayable in 13 quarterly installments carrying mark-up at the rate of three months KIBOR plus 5.04 % with the last such payment on May 27, 2015.

The unpaid mark-up accrued on the redemption due on November 27, 2011, aggregating to Rs. 77.765 million, was also deferred whereby, it is now payable in 13 unequal installments commencing from May 27, 2012 to May 27, 2015. As a result, accrued mark-up aggregating to Rs. 45.881 million, which is due after a period of twelve months, has been classified as non-current in these financial statements.

These are secured against a first specific charge over the fixed assets of the Group, aggregating to Rs. 800.000 (2012: Rs. 800.000) million and specific charge over the intangible assets (frequency spectrum) procured from the PTA.

24. ADVANCE FROM A CONTRACTOR

| | | | |
|-----------------------------------|--|----------------|----------------|
| Unsecured | | | |
| Advance from a Contractor | | 896,182 | 467,121 |
| Credit note issued | | - | 480,630 |
| Exchange loss on translation | | 24,403 | 19,098 |
| Trade debts applied there against | | (84,898) | (70,667) |
| | | <u>835,687</u> | <u>896,182</u> |

25. LONG-TERM DEPOSITS

| | | | |
|---|------|----------------|---------------|
| Security deposits | | | |
| Telenor LDI Communication (Private) Limited | 25.1 | 71,304 | 37,447 |
| Pakistan Mobile Communication Limited | 25.2 | 8,871 | 8,872 |
| Current portion shown under current liabilities | 32 | (5,914) | (40,405) |
| | | 74,261 | 5,914 |
| Distributors | | 6,977 | 7,855 |
| Indoor Call Point holders | | 30,710 | 31,332 |
| Others | | 25,924 | 22,550 |
| | | <u>137,872</u> | <u>67,651</u> |

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- 25.1 During the year, the Group entered into an agreement with Telenor LDI Communication (Private) Limited (Telenor). Under the provisions of the said agreement, Telenor deposited a sum of Rs.71.304 million with the group, representing two months' monthly recurring charges, in respect of the use of 54 MHz and 52 MHz bandwidths obtained by the group from foreign Satellite Bandwidth Providers, discussed in notes 8.1 and 8.2. This deposit is due to be adjusted against monthly recurring charges for the months of November 2014 and April 2016, and December 2014 and May 2016 respectively, amounting to Rs.71.304 million (2012: Rs.37.447) million.
- 25.2 During the year ended June 30, 2012, the Group entered into an agreement with Pakistan Mobile Communication Limited (Mobilink). Under the provisions of the said agreement, Mobilink deposited a sum of Rs.8.872 million with the group, representing three month's monthly recurring charges, in respect of the use of C-band Satellite bandwidth. This deposit is adjustable against monthly recurring charges for the month of August 2012, August 2013 and August 2014, amounting Rs 2.957 million each.

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 26. DEFERRED LIABILITIES | | | |
| Staff gratuity | 26.1 | 11,847 | 9,015 |
| Deferred taxation | 26.2 | - | - |
| Spectrum fee payable | 26.3 | 1,585,500 | 1,585,500 |
| | | <u>1,597,347</u> | <u>1,594,515</u> |
| 26.1 Staff grtuity | | | |
| 26.1.1 Reconciliation of obligaions as at year end | | | |
| Present value of defined benefit obligation | | <u>11,847</u> | <u>9,015</u> |
| 26.1.2 Movement in liability | | | |
| Net liability at beginning of the year | | 9,015 | 11,793 |
| (Reversal of charge)/ charge for the year | | 7,091 | 1,215 |
| Benefits paid during the year | | (4,259) | (3,993) |
| | | <u>11,847</u> | <u>9,015</u> |
| 26.1.3 Principal actuarial assumptions | | | |
| The latest valuation was carried out as at June 30, 2013, using Projected Unit Credit Method Following assumptions had been used for valuation of the scheme: | | | |
| Expected rate of increase in salaries, per annum | | 9.50% | 11.00% |
| Expected discount rate, per annum | | 10.50% | 12.00% |

26.1.4 Comparison for the five years

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------------------------|-------|--------|-------------------------------|------------------|
| | ----- (Rupees in '000) ----- | | | | |
| Present value of defined benefit obligation | 11,847 | 9,015 | 12,243 | 27,280 | 25,681 |
| | | | Note | June 30, 2013 | June 30, 2012 |
| | | | | ----- (Rupees in '000') ----- | |
| | | | | <u>1,585,500</u> | <u>1,585,500</u> |

26.2 Spectrum fee payable

This represents the balance of Initial Spectrum Fees (balance fees) in respect of the license and related frequencies acquired by the group, as referred to in note 6. In 2005, the WLL Operators requested the Government, through the Ministry of Information Technology, to grant a moratorium for payment of the balance fees followed by a staggered payment schedule over 10 years. The PTA, pursuant to the approval of the Economic Coordination Committee (ECC), confirmed granting of the moratorium of 4 years, expiring during March 2010, to the WLL industry, including the group, for the payment of balance of the spectrum fees, while other payment modalities were to be finalized. Since then, WLL Operators have been requesting the authorities for a confirmation of staggering of the balance fees over 10 years. On March 10, 2010, the group received a letter from the PTA approving the staggering of balance of initial spectrum fees in ten equal instalments, commencing the year 2009. However, few days later, the PTA withdrew the said letter regarding it as being issued inadvertently, and instead, issued a show cause notice to the group on June 02, 2010, seeking explanation for the non-payment of the balance of initial spectrum fee, with an immediate demand for the payment of the said amount. The group thereafter submitted a detailed response against the show cause notice to the PTA, raising several legal and factual grounds but the PTA, without appreciating those facts, issued a final determination order dated, May 11, 2011 demanding the payment of this fee along with late payment charges.

The Group instituted an appeal against the above said Order in the Islamabad High Court seeking to set it aside on the basis that the same was issued in undue haste and without affording the Group an opportunity of hearing. The Court granted an injunction against PTA through its order, dated June 13, 2011. Further, a Civil Suit has also been filed jointly by the Group, DVCOM Data (Private) Limited and Great Bear International Services (Private) Limited in the High Court of Islamabad seeking a declaration as to the continuation of the moratorium on the payment of this balance of Initial Spectrum Fees, which is currently pending adjudication.

During the last years, the Ministry of Information Technology and Telecommunication (MoIT), vide its letter dated August 30, 2011, has accepted the long outstanding request of the WLL industry and has instructed the PTA to collect the balance fees in installments.

However, the above mentioned appeal was disposed-off by the said Court during the last year due to mis-representation of PTA in the Court contending that the said directive of MoIT was issued for some other Spectrum not relevant for the WLL Operators. A Constitutional Petition for grant of Leave to Appeal (CPLA) was filed by the Group, in the Supreme Court, challenging the dismissal of the appeal by the Islamabad High Court mainly on the grounds of MoIT afore-referred letter through which this balance fees was required to be collected in installments. In parallel, a fresh Writ was also instituted by the Group in the Islamabad High Court highlighting incorrect statement from PTA and also the MoIT directive in this regard which is pending adjudication. The Supreme Court has disposed of the CPLA with the directions to the MoIT, being at the top of the hierarchy, to enforce its directive on the PTA and also to resolve the controversy whether the directive does or does not relate to the licensees.

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In view of the aforementioned order of the Honorable Supreme Court, the legal advisor of the Group has requested the MoIT to enforce its directions on PTA and initiate collection of the balance spectrum fee in 10 equal annual installments, with the first of such annual installments becoming due in January 2013, to ensure all installments are paid prior to the expiry of the current term of licenses. The response from MoIT is still awaited, pending due which, the liability has not been discounted to its present value.

| | Note | June 30, 2013 | June 30, 2012 |
|--|-----------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 27. ACCRUED MARK-UP | | | |
| Accrued on redeemable capital – secured | 27.1 | <u>45,881</u> | <u>68,433</u> |
| 27.1 This represents unpaid mark-up in respect of redeemable capital as a result of restructuring as discussed in detail in note 23.1. | | | |
| 28. TRADE AND OTHER PAYABLES | | | |
| Trade | | | |
| Pakistan Telecommunication Company Limited | | | |
| Wireless Payphone Service (WPS) | 28.1 | 609,708 | 609,708 |
| LL & LDI charges | | 42,929 | 68,470 |
| Others | | 800 | 562 |
| | | 653,437 | 678,740 |
| ZTE Corporation Limited | | 37,708 | 35,408 |
| Interconnect operators | | 28,512 | 189,266 |
| Others | | 239,303 | 216,413 |
| | | <u>958,960</u> | <u>1,119,827</u> |
| Other payables | | | |
| Current accounts with related parties | 28.2 | 119,977 | 62,211 |
| Pakistan Telecommunication Authority | | 78,990 | 58,305 |
| Advances from customers and franchisees | | 4,119 | 10,624 |
| Unearned income | | 2,058 | 9,375 |
| Accrued liabilities | 28.3&28.4 | 552,979 | 489,782 |
| Unclaimed dividend | | 7,892 | 7,892 |
| Workers' Welfare Fund | | 8,182 | 7,770 |
| Others | | 70,490 | 59,354 |
| | | 844,687 | 705,313 |
| | | <u>1,803,647</u> | <u>1,825,140</u> |

- 28.1 During the year ended June 30, 2007, the PTCL submitted an application in the Court of Senior Civil Judge, Islamabad, for arbitration in respect of resolution of disputes relating to WPS, claiming a sum of Rs.968.000 (June 30, 2012: Rs.968.000) million on account of air time charges, line rent and access charges and Rs.276.000 (June 30, 2012: Rs.276.000) million in respect of leased line charges from the Group. Further, the PTCL raised a bill for Rs.102.080 million and Rs.50.912 million for years ended June 30, 2009 and June 30, 2010. Hence, total amount claimed by the PTCL as at December 31, 2010 amounted to Rs.1,396.992 (June 30, 2012: Rs. 1,396.992) million. However, the management, while acknowledging the liability to the extent of Rs.609.708 (June 30, 2012: Rs.609.708) million does not accept the liability for the remaining sum of Rs.787.284 (June 30, 2012: Rs.787.284) million and has not recorded the same in these financial statements. In this respect, however, the Group, during the year ended June 30, 2007, paid a sum of Rs.100.000 million to the PTCL under protest to ensure uninterrupted WPS. Further, the Group also paid a sum of Rs.189.725 million under protest during the year ended June 30, 2009, including Rs.170.000 million discussed in detail in the following paragraph, and recorded the above amounts, aggregating to Rs.289.725 (2012: Rs.289.725) million, as due from the PTCL under other receivables (note 14) and has not adjusted the same in these financial statements, pending the final resolution of the arbitration proceedings.

During the year ended June 30, 2008, a notice was served by the PTCL to the Group, stating that unless the above referred sum was paid, the PTCL would suspend the WPS service to the Group. The Group approached the Court in this matter, praying the declaration of the above referred notice as unlawful, and seeking at the same time, a permanent injunction, restraining the PTCL from suspending the said service. The Court issued an Order, dated February 26, 2008 and instructed PTCL not to suspend the WPS service provided the Group to continued to pay Rs. 17.000 million per month to the PTCL irrespective of the amount invoiced by the PTCL, with the said amount subject to final determination upon completion of the arbitration process, which is currently under progress. Based on said Order, the Group paid a sum of Rs.170.000 million to PTCL for the period commencing May 2008 to February 2009. Thereafter, the Group stopped paying the said amount to the PTCL, as services under the WPS Agreement were no longer required.

| Note | June 30, 2013 | June 30, 2012 |
|------|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |

28.2 Related parties

| | | |
|---|----------------|---------------|
| World Trade Center (Private) Limited | 79,530 | 56,034 |
| Envicon (Private) Limited | 52 | 52 |
| Arfeen International (Private) Limited | 1,284 | 1,002 |
| Total Telecom Limited | 421 | 421 |
| Instaphone Infrastructure (Private) Limited | 33,138 | - |
| Chaman Investment (Private) Limited | 4,702 | 4,702 |
| Societe Generale (Private) Limited | 850 | - |
| | <u>119,977</u> | <u>62,211</u> |

- 28.2.1 The above amounts due from related parties representing current account balances which are payable on demand. These carry mark-up at the rate of six months KIBOR plus 3.5% (2012: six months KIBOR plus 3.5%) per annum.

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28.3 This includes a sum of Rs.12.738 (2012: Rs.12.738) million, representing tax deductions from payments made to a foreign Satellite Service Provider.

28.4 The Company has withheld an aggregate sum of Rs.212.813 (current year deduction Rs.65.863) million from payments made to SpaceCom International LLC., New Skies Satellite B.V., Orange Business Services and China Orient Satellite Company Limited (foreign Satellite Bandwidth Providers). During the current year, the Company filed an application to the Commissioner of Inland Revenue, seeking exemption from the requirements of withholding tax from payment to SpaceCom International LLC., and New Skies Satellite B.V. The Company has prayed that the said Satellite Bandwidth Providers do not have any permanent establishment in Pakistan and further, their countries of origin, United States of America, Netherlands, United Kingdom and China, have double tax treaties with Pakistan. Hence, the payments are considered to be outside the scope of taxation. Pending a final decision in this matter, the Company has not deposited the said withholding tax.

| | Note | June 30, 2013 | June 30, 2012 |
|--|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 29. ACCRUED / INTEREST MARK-UP | | | |
| On secured: | | | |
| Long-term loans | 22 | 19,615 | 25,380 |
| Redeemable capital | 23 | 162,712 | 83,638 |
| Short-term running finances | 30 | 14,749 | 15,345 |
| | | 197,076 | 124,363 |
| On unsecured: | | | |
| Short term borrowings | | 10,308 | - |
| Current accounts with related parties | | 6,507 | - |
| | | 213,891 | 124,363 |
| 30. SHORT-TERM RUNNING FINANCES | | | |
| From banks – secured | 30.1 | 342,932 | 352,110 |

30.1 The Group has arranged short-term running finance facilities, aggregating to Rs.375.000 (2012 Rs.375.000) million, from various commercial banks. These carry mark-up, ranging between three months KIBOR plus 2.75% to six months KIBOR plus 3.5% (2012: three months KIBOR plus 2.75% to six months KIBOR plus 3.5%) per annum, payable quarterly. These facilities are secured against first pari passu hypothecation charge over current assets of the Group.

31. SHORT-TERM BORROWING

| | | | |
|--|--|---------------|---|
| Unsecured - loan from a related party | | | |
| World Trade Center | | 98,500 | - |

31.1 This represents short term loan received from related party carried markup at the rate of one year KIBOR plus 2.10% (2012: Nil) per annum and is repayable on demand.

| | Note | June 30, 2013 ----- (Rupees in '000') ----- | June 30, 2012 |
|--|------|---|------------------|
| 32. CURRENT MATURITIES OF LONG-TERM LIABILITIES | | | |
| Long-term loans | 22 | 61,243 | 9,680 |
| Redeemable capital (TFCs) | 23 | 360,215 | 104,860 |
| Liabilities against assets subject to finance lease | | - | 13,158 |
| Long-term deposits | 25 | 5,914 | 40,405 |
| Due to employees | | - | 334 |
| | | <u>427,372</u> | <u>168,437</u> |

33. CONTINGENCIES AND COMMITMENTS

33.1 The Group has filed an appeal under section 7(1) of the Pakistan Telecommunication (Re-organisation) Act, 1996 before the Islamabad High Court against the decision / determination of the PTA dated, November 18, 2008, whereby it directed the Group to pay Rs.137.651 million by December 15, 2008 in respect of annual regulatory dues for various years, commencing June 30, 2006. The above sum includes annual license fee, research and development fund contribution, annual radio spectrum frequency fee and radio base station charges along with late payment charges. The Islamabad High Court, vide its Order dated, March 19, 2009, suspended the aforesaid impugned Order of the PTA subject to the payment of Rs.36.000 million by the Group (which is the Group's admitted liability owed to the PTA excluding late payment charges). However, subsequent to the year end, the IHC has dismissed the appeal on the grounds of unauthorised filing. The Group has filed a Constitution Petition for grant of Leave to Appeal (CPLA) in this regard in the Supreme Court of Pakistan which is in the preliminary stage. As the adjudication is in process, therefore, no provision has been made by the Group for Rs.101.651 million in these financial statements. The Group has already paid the amount that was due on this account.

33.2 During the year ended June 30, 2009, the PTA issued a show cause notice to the Group, alleging that the Group has violated the Access Promotion Rules, 2004 and Access Promotion Regulations, 2005 in respect of reporting requirements and certain discrepancies in the data provided to the PTA under the said rules/regulations. The Group has taken strong exceptions to the allegations being unfounded and made in undue haste without affording the Group an opportunity to explain its position which could have avoided the need for issuance of a show cause notice to start with. In particular, the Group has stated that complete data was provided to the PTA and the PTA had no occasion to allege violation of the requirements of the rules/regulations. This was stated without prejudice to the Group's stance before the Supreme Court of Pakistan regarding the vary vires of the AP Rules, 2004 and AP Regulations, 2005 under which the aforementioned show cause notice has been issued to the Group.

Thereafter, during the year ended June 30, 2011, the PTA issued a Determination dated October 31, 2010 in respect of the above matter, and demanded a sum of Rs.56.47 million from the Group on account of short payment of APC for USF. The Group has filed a Writ Petition which is currently pending before the Islamabad High Court inter alia praying that the opportunity of being heard be afforded to the Group and the amount determined in the said Determination be corrected in view of the Group's application.

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In view of the Group's legal advisor, at this juncture, amount of penalties, if any, imposed by the PTA on above referred irregularities cannot be ascertained, hence, no provision has been made by the Group for any liability that may arise as a result of this matter in these financial statements.

- 33.3 The Group filed a law suit against the Karachi Building Control Authority (KBCA) before the High Court of Sindh (the Court), for preventing their antennas from dismantling against notice issued by KBCA, dated February 26, 2006. The KBCA has instructed all cellular phone companies to regularise their antenna which involves obtaining an NOC from the KBCA, and a Stability Certificate within 15 days from the date of that notice, failing which the defendant has threatened to dismantle the antennas and / or take legal action. The Court has granted interim injunction and matter is pending for hearing of application. In view of the Group's legal advisor, it is not possible at this juncture to assess and estimate the financial impact of the case in question, however, the Group has a good arguable case and is likely to succeed and as such is not likely to suffer any loss on account of this litigation. Hence, no provision for any liability that may arise as a result of this matter has been recorded by the Group in these financial statements.
- 33.4 During the year, the PTA issued a show cause notice to the Group alleging that the amount in the sum of Rs.23 million on account of Annual Radio Spectrum Fees (ARFSF) for the year ended June 30, 2011 has not been paid. The Group in its reply to the said notice requested the PTA to receive this amount in 12 equal monthly installments while submitting the cheque for the first installment mainly on the grounds of business losses and consequent cash flow constraints. The PTA has turned down this request and issued a determination demanding the amount including late payment fees in lump sum. The said determination was challenged in the Islamabad High Court and the Court was pleased to suspend the operations of the order. The case is pending adjudication.
- 33.5 During the previous year, the PTA issued a show cause notice to the Group, demanding the payment of Annual Regulatory Dues in the sum of Rs. 21 million. However, the Group worked out these dues to be Rs. Nil as it contended that these dues should be calculated by using accrual basis of accounting, to arrive at the net revenue on which these charges should be calculated under the LDI and WLL license condition. The PTA, on the other hand, only allows expenses that are paid during the year to be deducted from the revenue. This contention was not accepted by the PTA and a determination was issued by the authority demanding the fee so calculated. The Group instituted an appeal in the Islamabad High Court, challenging the alleged amount demanded by the PTA and the Court suspended the said determination of PTA. The matter is pending adjudication and in view of the Group's legal advisor, the Group has a good arguable case and no liability has been recorded in these financial statements.
- 33.6 PTA, in the previous year, issued a show cause notice, alleging that the Group is not following the Approved Settlement Rate (ASR) while selling the international minutes as determined by the PTA. The Group in response has rejected the allegations by stating that the very issue of determining ASR in light of the relevant Rules and Regulations of the Authority stands sub-judice in the Honorable High Court of Sindh, which is currently pending and any further deliberations/implications/decisions relating to the ASR issue can only be made once a binding principle is established by the said Court in this matter. Further, the Group has also instituted a petition in the Honorable High Court of Sindh, challenging the show cause notice and the Court granted a stay to the effect that PTA will not revoke or cancel the Group's license in the matter. As per the legal advisor of the Group, the case is in its preliminary stage and the Group has a good arguable case on its merits and is likely to succeed in obtaining the relief sought against the respondent.

- 33.7 During the year ended June 30, 2010, the PTA issued a determination relating to the Annual Regulatory Dues for 2008 and demanded a payment of Rs.54.548 million. The Group has challenged the determination in the High Court of Sindh, mainly on the ground that the PTA can only claim Annual Regulatory Dues on the licensed services and not on the non-licensed revenue streams. In view of the Group's legal advisor, the Group has a good arguable case on merits and is likely to succeed. Accordingly, as the case is pending adjudication, no provision has been made for the same in these financial statements pending a final decision.
- 33.8 During the current year, the Group has filed a Constitutional Petition before the High Court of Sindh a Karachi, seeking certain declarations and restraining orders against PTA & National Accountability Bureau, challenging the Notice, dated May 27, 2011, issued by PTA to the Group under section 5(r) of the NAB Ordinance whereby the PTA has required the Group to make payment of Rs.1,233.540 million on account of APC for USF Contribution till January 2011, which was payable by the Group within 30 days from the date of the Notice. In view of Group's legal advisor, the Group has a good arguable case on merit and is likely to succeed in obtaining the relief claimed against the respondents. Accordingly, no provision has been made for any liability in these financial statements for the above.
- 33.9 In respect of the assessment years 1999 - 2000 to 2002 - 2003, the Group was assessed partly under the presumptive tax regime (now final tax regime) and partly under the normal tax regime. Further, for assessment years 2001 - 2002 and 2002 - 2003, apart from taxation on historic basis, the tax authorities disallowed tax credit as well as the reinvestment allowance claimed by the Group on purchase of fixed assets. Tax demand in respect of these cases amounts to Rs.59.812 million. The Group has filed appeals against these cases with High Court of Sindh (the Court), which are currently pending.

The income tax return filed by the Group for the tax year 2003 was subjected to tax audit. An Order has been passed by the Taxation Officer under section 122(1) of the Income Tax Ordinance, 2001, whereby income has been assessed at Rs.56.923 million against the reported tax loss of Rs.5.945 million. The Group has filed an appeal against the same before the Income Tax Appellate Tribunal (ITAT) which has decided the case against the Group, after admitting an adjustment of tax refundable, amounting to Rs.4.529 million, against tax demand of Rs.19.358 million, thus creating a final tax demand of Rs.14.789 million. The Group has filed an appeal in the Court, which has not been heard to-date.

The aggregate financial impact of the above matters on the tax provision made by the Group in the financial statements works out to be Rs.74.601 (2012: Rs.74.601) million. However, the management, based on the opinion of its tax advisors, is confident about the favorable outcome of the above matters and, hence, no additional provision has been considered necessary in these financial statements.

- 33.10 PTCL's claim amounting to Rs.1,618.185 (2012: Rs.1,607.702) million in respect of monthly billing has not been acknowledged as debt by the Group. The Group maintains that the said amount is overbilled by the PTCL. Hence, no provision has been made against the same in these financial statements.
- 33.11 Contingencies in respect of matters relating to the PTCL have been disclosed in notes 17.2, 17.3, 17.4 and 25.1 to the financial statements. Pending resolutions of these matters no provision has been made against the amounts disclosed in these notes.
- 33.12 Contingency in respect of the PTA claim for APC for USF is disclosed in note 17.6 to the financial statements against which no provision has been made in these financial statements in accordance with the advice of the legal advisor.

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- 33.13 Contingency relating to accrued mark-up is disclosed in note 16.1 to the financial statements against which no provision has been made for the reason disclosed in the said note.
- 33.14 During the year ended June 30, 2005, a suit was filed by Shinawatra Satellite Public Company Limited, Thailand, in the High Court of Sindh against the Group for the recovery of transponder service fee inclusive of withholding tax and interest thereon, amounting to US\$324,625 equivalent to RS.32.073 (2012: Rs.27.934) million. Out of this amount, a sum of RS.12.738 (2012: RS.12.738) million had been withheld from the payments made by the Group to the above-referred entity and is included in the income tax deducted at source in note 28.3. The balance amount of Rs. 15.196 (2012: Rs.15.196) million has not been provided for in these financial statements as the Group's lawyer has opined that the suit is subject to evidence produced in this matter and is likely to be decided in Group's favour, and, hence, pending a final decision by the High Court of Sindh in this matter, no provision has been made any liability that may arise as a result of the said lawsuit in these financial statements.
- 33.15 A suit was filed by Huawei Technologies Company Limited, China in the High Court of Sindh against the Group for the return of certain equipment or payment of US\$300,000 equivalent to Rs.29.640 (2012: RS.25.815) million and a compensation of US\$270,000 [approximately Rs. 26.676 (2012: Rs. 23.234) million] for the use of equipment. During the year ended June 30, 2005, the subject equipment was returned by the Group in the presence of a representative of the Court. However, the decision regarding the payment of compensation is still pending before the Court. The Group's lawyer has opined that the suit is subject to evidence produced in this matter and is likely to be decided in Group's favour, and, hence, pending a final decision by the High Court of Sindh in this matter, no provision has been made for any liability that may arise as a result of the said lawsuit in these financial statements.
- 33.16 The income tax assessments of Supernet Limited, a Subsidiary Company have been finalized up to and including the tax year 2011. While finalizing the Subsidiary Company's income tax assessments for the assessment years 1997-98 to 2002-03, the taxation officer had not allowed credit of taxes paid by the Subsidiary Company, aggregating Rs. 17.078 million, on account of non-verifiability of payment challans. The Subsidiary Company through its Tax Consultants has applied for a rectification for Rs.15.605 million and separate rectification application of Rs.1.473 million will be made in near future, The management is confident that the eventual outcome of the matter will be decided in favour of the Subsidiary Company. Accordingly, no adjustment has been made to the above, shown under advance income tax in note 18, pending a final decision in this matter.
- 33.17 During the year Supernet Limited, a Subsidiary Company tax year 2008 was audited u/s 177 and tax demand of Rs. 15.398 million was raised, the Subsidiary Company so far furnished evidence of Rs. 13.272 million. The Subsidiary Company is pursuing for remaining tax deductions evidences of Rs. 2.126 million and submitted the details to the department. Till now no action has been taken against the Subsidiary Company, the department may proceed against the vendors for the recovery of the taxes withheld u/s 161 read with section 205 of the Ordinance.
- 33.18 Counter guarantees given to banks amounting to Rs.230 (2012: Rs.207.898) million.

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| | Note | June 30, 2013 | June 30, 2012 |
|---|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 34. REVENUE – Net | | | |
| Turnover | | 3,365,703 | 2,316,336 |
| APC for USF | 34.1 | (566,602) | - |
| Trade discounts | | (3,054) | (8,018) |
| | | 2,796,047 | 2,308,318 |
| Services rendered to the Contractor under the Network Agreement | | 84,867 | 70,314 |
| Sale of equipment | | 50,434 | 142,363 |
| | | <u>2,931,348</u> | <u>2,520,995</u> |

34.1 This amount represents the APC for USF collected by PTCL on behalf of the Group for onward payment to USF as per the agreement dated August 30, 2012.

35. DIRECT COSTS

| | | | |
|---|-------|------------------|------------------|
| Salaries and other benefits | 35.1 | 116,999 | 82,297 |
| Interconnect charges – net | | 381,974 | 770,148 |
| Network media charges | | 69,139 | 79,550 |
| Network sites rent | | 117,083 | 135,200 |
| Network sites utilities and maintenance | | 102,221 | 107,291 |
| Satellite communication charges | | 725,243 | 620,315 |
| Cost of cards sold | 35.2 | 128 | 687 |
| Communication stores consumed | 35.3 | 29,282 | 131,542 |
| Provision against slow moving stores | 12.1 | - | 268 |
| Support services | | 12,778 | 12,355 |
| Repair and maintenance | | 974 | 1,044 |
| Royalty | 35.4 | 1,637 | 2,004 |
| Consultancy charges | | 1,488 | 3,479 |
| Printing and stationery | | 3 | 3 |
| Conveyance and travelling | | 7,931 | 5,691 |
| Communication | | 1,616 | 1,559 |
| Insurance | | 12,314 | 9,846 |
| Annual license fee | | 24,852 | 16,789 |
| Depreciation | 6.1.2 | 382,409 | 417,536 |
| Amortisation | 7.3 | 181,517 | 181,517 |
| Others | | 4,170 | 1,860 |
| | | <u>2,173,758</u> | <u>2,580,981</u> |

35.1 This includes a sum of Rs.1.134 (2012: Rs.0.273) million in respect of the Group's contribution to the Provident Fund.

35.2 Cost of cards sold

| | | |
|---------------|------------|--------------|
| Opening stock | 581 | 862 |
| Purchases | 175 | 406 |
| | <u>756</u> | <u>1,268</u> |
| Closing stock | (628) | (581) |
| | <u>128</u> | <u>687</u> |

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| | Note | June 30, 2013 | June 30, 2012 |
|------------------------------------|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 35.3 Communication stores consumed | | | |
| Opening stock | | 101,774 | 108,431 |
| Purchases | | 61,262 | 124,885 |
| | | <u>163,036</u> | <u>233,316</u> |
| Closing stock | | (133,754) | (101,774) |
| | | <u>29,282</u> | <u>131,542</u> |

35.4 This represents royalty, after incorporating adjustment of inter-operator payments, paid to PTA for the establishing, maintaining and operating of data Class Value Added Services (CVAS) in Pakistan under license number DIR (L)/CVAS-303/PTA/2009, granted on October 23, 2009 for the period of 15 years.

36. DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

| | | | |
|--|-------|----------------|----------------|
| Salaries and other benefits | 36.1 | 249,672 | 254,861 |
| Postage, telephone and telex | | 2,523 | 3,244 |
| Vehicles running and maintenance | | 25,785 | 26,460 |
| Travelling and entertainment | | 20,954 | 18,304 |
| Office security and maintenance | | 9,603 | 8,466 |
| Stationery | | 5,166 | 4,808 |
| Rent and utilities | | 111,986 | 101,677 |
| Insurance | | 6,150 | 6,484 |
| Legal and professional charges | | 19,489 | 20,888 |
| Auditors' remuneration | 36.2 | 5,130 | 4,414 |
| Donation | 36.3 | - | 329 |
| Sales promotion and marketing | | 8,821 | 13,853 |
| Fee and subscription | | 7,678 | 2,995 |
| Depreciation | 6.1.2 | 12,417 | 13,937 |
| Amortisation | 7.3 | 64 | 64 |
| Repair and maintenance | | 2,470 | 1,982 |
| Communication | | 1,555 | 747 |
| Provision for debts considered doubtful | 13.2 | - | 21,641 |
| Provision for additional tax and penalties | | - | 39,804 |
| Advances written-off | | 64,175 | - |
| Provision for insurance claims | | - | 7,418 |
| Late payment surcharge – PTA | | - | 5,244 |
| Others | | 3,338 | 1,944 |
| | | <u>556,976</u> | <u>559,564</u> |

36.1 This includes Rs.7.144 million in respect of gratuity expense for the year (2012: Rs.1.429 million) and Rs.3.771 (2012: Rs.3.826) million in respect of the Group's contribution towards provident fund.

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| | Note | June 30, 2013 | June 30, 2012 |
|--|------|-------------------------------|------------------|
| | | ----- (Rupees in '000') ----- | |
| 36.2 Auditors' remuneration | | | |
| Fee for the audit of annual financial statements | | 2,555 | 2,570 |
| Fee for the audit of consolidated financial statements | | 350 | 350 |
| Fee for the review of half yearly financial statements and other certifications | | 1,120 | 980 |
| Tax services | | 660 | 28 |
| Out-of-pocket expenses | | 445 | 486 |
| | | <u>5,130</u> | <u>4,414</u> |
| | | | |
| 36.3 Donations do not include any donee in whom any director or his spouse has any interest. | | | |
| 37. OTHER OPERATING EXPENSES | | | |
| Exchange loss – net | | 22,522 | 23,758 |
| Workers' Welfare Fund | | 412 | - |
| | | <u>22,934</u> | <u>23,758</u> |
| | | | |
| 38. PROVISION FOR IMPAIRMENT IN THE VALUE OF INVESTMENT & FOR OTHER RECEIVABLES | | | |
| Provision for: | | | |
| Impairment in value of investment | | 480,630 | - |
| Other receivables considered doubtful | | 200,000 | - |
| | | <u>680,630</u> | <u>-</u> |
| | | | |
| 39. OTHER INCOME | | | |
| Income from financial assets | | | |
| Return on bank deposits and term deposit receipt | | 4,026 | 4,952 |
| Liabilities no longer payable written back | | - | 21,083 |
| | | <u>4,026</u> | <u>26,035</u> |
| Mark-up on current accounts with related parties | | 5,792 | 15,416 |
| Income from non-financial assets | | | |
| Gain on sale of fixed assets | | 1,400 | 2,043 |
| Professional service to a related party | | 18,000 | 18,000 |
| Others | | 9,290 | 1,137 |
| | | <u>28,690</u> | <u>21,180</u> |
| | | <u>38,508</u> | <u>62,631</u> |

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| | Note | June 30, 2013 | June 30, 2012 |
|---------------------------------------|------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 40. FINANCE COSTS | | | |
| Mark-up on secured: | | | |
| Long-term loans | | 35,615 | 44,005 |
| Redeemable capital | | 133,184 | 151,523 |
| Short-term borrowings | | 11,158 | - |
| Short-term running finances | | 46,185 | 65,410 |
| Markup on accounts with related party | | 7,877 | - |
| Bank charges | | 4,568 | 5,140 |
| | | <u>238,587</u> | <u>266,078</u> |
| 41. TAXATION | | | |
| Current | 41.1 | 18,094 | 31,852 |
| Prior | | 224 | (3,733) |
| Deferred | | (267,907) | (292,201) |
| | | <u>(249,589)</u> | <u>(264,082)</u> |

41.1 The relationship between income tax expense and accounting profit has not been presented in these financial statements as the provision for taxation for the current year is based on minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001.

42. (LOSS) / EARNINGS PER SHARE – basic and diluted

| | | |
|-----------------------------------|--------------------|--------------------|
| Loss after tax for the year | <u>(453,440)</u> | <u>(582,673)</u> |
| Weighted average number of shares | <u>300,000,000</u> | <u>300,000,000</u> |
| Loss per share (Rupees) | <u>(1.51)</u> | <u>(1.94)</u> |

There is no dilutive effect on the basic earnings of the Group.

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| | Note | June 30, 2013 | June 30, 2012 |
|---|-------|------------------|------------------|
| ----- (Rupees in '000') ----- | | | |
| 43. CASH GENERATED FROM (UTILISED IN) OPERATIONS | | | |
| (Loss) / profit before taxation | | (703,029) | (846,755) |
| Adjustments for non-cash charges and other items: | | | |
| Depreciation | 6.1.2 | 394,826 | 431,473 |
| Amortisation | 7 | 181,581 | 181,581 |
| Provision for gratuity | | 7,091 | 1,132 |
| Finance costs | | 234,019 | 260,938 |
| Provision for debts considered doubtful | 36 | - | 21,641 |
| Provision for impairment | 38 | 480,630 | - |
| Advances written-off | 36 | 64,175 | - |
| Provision against slow moving stores | 35 | - | 268 |
| (Profit) / loss on sale of fixed assets | | (1,400) | (2,043) |
| | | <u>1,360,922</u> | <u>894,990</u> |
| | | 657,893 | 48,235 |
| Decrease / (increase) in current assets | | | |
| Communication stores | | (31,353) | 4,663 |
| Stock-in-trade | | (47) | 281 |
| Trade debts | | (244,901) | (56,692) |
| Loans and advances | | (13,366) | 11,169 |
| Deposits and prepayments | | (46,191) | 21,931 |
| Other receivables | | (46,055) | 56,931 |
| Short-term investment and accrued mark-up | | (4,706) | (15,328) |
| | | (294,509) | 22,955 |
| (Decrease) / increase in trade and other payables | | (21,492) | 304,876 |
| Cash generated from operations | | <u>341,892</u> | <u>376,066</u> |
| 44. CASH AND CASH EQUIVALENT | | | |
| Short term investments | 19 | - | 34,180 |
| Cash and bank balances | 20 | 101,879 | 21,476 |
| | | <u>101,879</u> | <u>55,656</u> |

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45. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | 2013 | | | 2012 | | |
|---------------------------------|----------------------------|--------------|----------------|----------------------------|--------------|----------------|
| | Chief Executive | Directors | Executives | Chief Executive | Directors | Executives |
| | ----- (Rs. in '000') ----- | | | ----- (Rs. in '000') ----- | | |
| Managerial remuneration | 12,206 | 3,290 | 77,820 | 12,627 | 6,135 | 61,175 |
| Other perquisites and benefits: | | | | | | |
| House rent | 2,613 | 1,481 | 14,246 | 2,613 | 2,761 | 13,922 |
| Medical | 58 | 25 | 996 | 49 | 55 | 2,751 |
| Retirement benefits | 484 | 274 | 1,662 | 411 | 199 | 3,171 |
| Perquisites and benefits | 2,814 | - | 41,398 | 4,310 | - | 27,799 |
| Leave passage | 533 | - | 3,600 | - | - | 2,425 |
| Utilities | 581 | 329 | 3,166 | 581 | 614 | 3,094 |
| | 7,083 | 2,109 | 65,068 | 7,964 | 3,629 | 53,162 |
| | <u>23,489</u> | <u>5,399</u> | <u>142,888</u> | <u>20,591</u> | <u>9,764</u> | <u>114,337</u> |
| Number of persons | <u>3</u> | <u>2</u> | <u>53</u> | <u>2</u> | <u>2</u> | <u>59</u> |

45.1 The Chief Executive Officers and a director of the Group are also provided with the free use of the Group maintained car and other benefits in accordance with their terms of service.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks i.e. market risk, credit risk and liquidity risk. The risk is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the management. The Board of Directors supervises the overall risk management approach within the Group.

46.1 Market risk

Market risk is the risk that fair value of future cash flows will fluctuate because of changes in market variables such as interest rates, foreign exchange rates and equity prices.

46.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in the market interest rates. As of June 30, 2013, the Group is exposed to such risk mainly in respect of long-term and short-term borrowings and short-term investments and loan.

Management of the Group estimates that 1% increase in the market interest rate, with all other factors remaining constant, would decrease the Group's profit by Rs.13.26 million and a 1% decrease would result in an increase in the Group's profit by the same amount. However, in practice, the actual results may differ from the sensitively analysis.

46.1.2 Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to a change in a foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. The Company's exposure to foreign currency risk is as follows:

| | June 30, 2013 US\$ | June 30, 2012 US\$ |
|--------------------------|-------------------------------|--------------------------|
| Trade debts | 42,429 | 1,077,199 |
| Bank balances | 4,077 | 436 |
| Trade and other payables | (602,870) | (530,648) |
| | <u>(556,364)</u> | <u>546,987</u> |
| | June 30, 2013 | June 30, 2012 |
| | ----- (Rupees in '000') ----- | |

The following significant exchange rates have been applied at the reporting dates:

| | | |
|------------------------|--------------|--------------|
| Exchange rate (Rupees) | <u>98.80</u> | <u>94.00</u> |
|------------------------|--------------|--------------|

The foreign currency exposure is partly covered as majority of the Group's billing is determined in dollars which is converted into rupees at the exchange rate prevailing at the transaction date. The Company has assessed that hedging its foreign currency borrowings will be more expensive than assuming the risk itself.

Sensitivity analysis:

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

| | Change in US dollar rate (%) | Effect on profit / (loss) ----- (Rupees in '000') ----- | Effect on equity ----- |
|---------------|------------------------------------|--|------------------------------|
| June 30, 2013 | +10 | <u>(5,497)</u> | <u>(5,497)</u> |
| | -10 | <u>5,497</u> | <u>5,497</u> |
| June 30, 2012 | +10 | <u>5,142</u> | <u>5,142</u> |
| | -10 | <u>(5,142)</u> | <u>(5,142)</u> |

46.1.3 Equity risk

Equity price risk is the risk of volatility in share prices resulting from their dependence on market sentiments, speculative activities, supply and demand for shares and liquidity in the market. As of June 30, 2013 the Group is not exposed to equity price risk.

46.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss for the Group by failing to discharge its obligations. The table below analyses the Group's maximum exposure to credit risk.

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| | June 30, 2013 | June 30, 2012 |
|------------------------------|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |
| Trade debts | 728,802 | 483,901 |
| Short-term investment | - | 34,180 |
| Long-term loans and advances | 5,820 | 5,820 |
| Long-term deposits | 68,781 | 71,726 |
| Loans and advances | 66,329 | 52,963 |
| Other receivables | 3,476,793 | 3,522,848 |
| Accrued mark-up | 70,012 | 65,306 |
| Bank balances | 99,097 | 18,641 |
| | <u>4,515,634</u> | <u>4,255,385</u> |

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

The credit quality of financial assets that are neither past nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates as follows:

| | | |
|---|----------------|----------------|
| Trade debts | | |
| Customers with no defaults in the past one year | <u>728,802</u> | <u>483,901</u> |
| Short-term investment | | |
| A-3 | <u>-</u> | <u>34,180</u> |
| Bank balances | | |
| A1+ | 6,662 | 11,821 |
| A1 | 75,592 | 6,244 |
| A-2 | 17,717 | 88 |
| A-1 | 73 | 20 |
| A3 | 5 | 35 |
| | <u>100,049</u> | <u>18,208</u> |

46.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group follows effective cash management and planning policy to ensure the availability of funds through committed credit facilities. The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

| | Less than 3 months | 3 to 12 months | 1 to 5 Years | Greater than 5 years | Total |
|--|-------------------------------|-------------------|------------------|-------------------------|------------------|
| | ----- (Rupees in '000') ----- | | | | |
| Long-term loans | - | 61,243 | 154,104 | - | 215,347 |
| Redeemable capital | - | 360,215 | 520,380 | - | 880,595 |
| Long-term deposits | - | 5,914 | 137,872 | - | 143,786 |
| Spectrum fee payable | - | - | 1,585,500 | - | 1,585,500 |
| Trade and other payables | - | 1,803,647 | - | - | 1,803,647 |
| Accrued mark-up | 196,783 | 17,108 | 45,881 | - | 259,772 |
| Short-term borrowings/ running finances | 98,500 | 342,932 | - | - | 441,432 |
| June 30, 2013 | <u>295,283</u> | <u>2,591,059</u> | <u>2,443,737</u> | <u>-</u> | <u>5,330,079</u> |

| | Less than 3 months | 3 to 12 months | 1 to 5 Years | Greater than 5 years | Total |
|-----------------------------|------------------------------|-------------------|------------------|-------------------------|------------------|
| | ------(Rupees in '000')----- | | | | |
| Long-term loans | - | 9,680 | 304,167 | - | 313,847 |
| Redeemable capital | - | 104,860 | 776,160 | - | 881,020 |
| Long-term deposits | - | 40,405 | 67,730 | - | 108,135 |
| Spectrum fee payable | - | - | 1,585,500 | - | 1,585,500 |
| Trade and other payables | 2,419 | 1,822,721 | - | - | 1,825,140 |
| Accrued mark-up | 124,363 | - | - | - | 124,363 |
| Short-term running finances | 127,255 | 224,802 | - | - | 352,057 |
| June 30, 2012 | <u>254,037</u> | <u>2,202,468</u> | <u>2,733,557</u> | <u>-</u> | <u>5,190,062</u> |

Effective interest / mark-up rates for the financial liabilities are mentioned in the respective notes to the financial statements.

46.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in the consolidated financial statements approximate their fair values, except for available-for-sale investment.

46.5 Capital management

The Group's objective when managing capital is to safeguard the Group's ability to remain as a going concern and continue to provide returns for shareholders.

The Group monitors capital using a gearing ratio, which is debt divided by total capital plus debt as follows:

| | June 30, 2013 | June 30, 2012 |
|--|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |
| Long-term loans | 215,347 | 313,847 |
| Redeemable capital | 880,595 | 881,020 |
| Due to PTA | 1,585,500 | 1,585,500 |
| Debt | <u>2,681,442</u> | <u>2,780,367</u> |
| Issued, subscribed and paid-up capital | 3,000,000 | 3,000,000 |
| Unappropriated profit / (Accumulated loss) | (301,738) | 151,702 |
| Total capital | <u>2,698,262</u> | <u>3,151,702</u> |
| | <u>5,379,704</u> | <u>5,932,069</u> |
| Gearing ratio | <u>49.8%</u> | <u>46.9%</u> |

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47. TRANSACTIONS WITH RELATED PARTIES

The related parties include a subsidiary Group, entities having directors in common with the Group, major shareholders of the Group, directors and other key management personnel and retirement benefit plans. Transactions with related parties, other than those disclosed elsewhere in the financial statements are as under:

| | June 30, 2013 | June 30, 2012 |
|--|-------------------------------|------------------|
| | ----- (Rupees in '000') ----- | |
| Entities having directors in common with the Group | | |
| Arfeen International (Private) Limited | | |
| Payments made on behalf of the Group | 1,516 | 1,822 |
| Payments made by the Group | - | 780 |
| Markup charged during the year | 5,016 | 8,432 |
| Rent charged during the year | 5,520 | 5,520 |
| Service received | 903 | 759 |
| Service rendered | 238 | 203 |
| World Trade Center (Private) Limited | | |
| Services rendered | 26,491 | 22,817 |
| Service received | 62,095 | 63,116 |
| Short term borrowing | 98,500 | - |
| Markup charged to the group | 17,715 | - |
| Envicrete Limited | | |
| Payment made | 152 | 211 |
| Payment made on behalf of the Group | - | 387 |
| Grand Leisure Corporation (Private) Limited | | |
| Services rendered | - | 236 |
| Portgrand Limited | | |
| Services rendered | 450 | 300 |
| Markup accrued | - | 141 |
| Provident Fund | | |
| Contribution during the year | 3,771 | 3,826 |
| Instaphone Infrastructure (Private) Limited | | |
| Payment made by the Group | 3,435 | 4,209 |
| Payment made on behalf of the Group | 3,802 | 1,087 |
| Sale of fixed assets | - | 375 |
| Services rendered | 18,000 | 18,000 |
| Services received | 57,140 | 64,761 |
| Mark-up charged during the year | - | 6,053 |
| Fixed asset purchased by the Group | - | 1,150 |
| Instaphone (Private) Limited | | |
| Services rendered | - | 540 |
| Payment made | - | 2,615 |
| Mark-up charged | 457 | 167 |

47.1 Balances outstanding with related parties have been disclosed in the respective notes to the financial statements.

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| | |
|----------------------------------|-------------------------------|
| June 30, 2013 (Un-audited) | June 30, 2012 (Audited) |
| ----- (Rupees in '000') ----- | |

48. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on latest un-audited financial statements of the fund:

| | | |
|---------------------------------|---------------|---------------|
| Size of the Fund - total assets | 36,296 | 28,043 |
| Cost of the investment made | 24,210 | 17,049 |
| Percentage of investments made | 72% | 70% |
| Fair value of investments | <u>26,293</u> | <u>19,723</u> |

48.1 The break-up of fair value of investments is:

| | | | | |
|-------------------------|---------------|----|---------------|----|
| | | % | | % |
| Bank balances/deposits | 11,724 | 45 | 9,530 | 49 |
| Mutual funds | 8,951 | 34 | 5,185 | 26 |
| National Saving Schemes | <u>5,618</u> | 21 | <u>5,008</u> | 25 |
| | <u>26,293</u> | | <u>19,723</u> | |

48.2 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

49. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at June 30, 2013 and 2012 respectively are as follows:

| | | |
|---|------------------|------------------|
| | June 30, 2013 | June 30, 2012 |
| Average number of employees during the year | <u>583</u> | <u>633</u> |
| Number of employees as at | <u>571</u> | <u>594</u> |

50. CORRESPONDING FIGURES

Certain corresponding figures have been reclassified for the purposes of better presentation, however, there were no material reclassification.

51. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 08, 2013 by the Board of Directors.

52. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees, unless otherwise stated.


Chief Executive


Director

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Pattern of Shareholding

As at June 30, 2013

| Number of share Holders | Share Holding From | To | Total Share Held |
|-------------------------|--------------------|--------|------------------|
| 185 | 1 | 100 | 7,113 |
| 580 | 101 | 500 | 269,411 |
| 921 | 501 | 1000 | 914,714 |
| 1,787 | 1001 | 5000 | 5,624,631 |
| 726 | 5001 | 10000 | 6,227,920 |
| 248 | 10001 | 15000 | 3,282,941 |
| 210 | 15001 | 20000 | 4,028,220 |
| 149 | 20001 | 25000 | 3,594,694 |
| 77 | 25001 | 30000 | 2,222,401 |
| 41 | 30001 | 35000 | 1,382,756 |
| 49 | 35001 | 40000 | 1,901,800 |
| 29 | 40001 | 45000 | 1,252,683 |
| 93 | 45001 | 50000 | 4,621,753 |
| 13 | 50001 | 55000 | 696,500 |
| 21 | 55001 | 60000 | 1,242,950 |
| 8 | 60001 | 65000 | 512,585 |
| 8 | 65001 | 70000 | 554,000 |
| 11 | 70001 | 75000 | 812,500 |
| 7 | 75001 | 80000 | 549,826 |
| 11 | 80001 | 85000 | 918,000 |
| 7 | 85001 | 90000 | 619,901 |
| 4 | 90001 | 95000 | 372,503 |
| 63 | 95001 | 100000 | 6,287,500 |
| 8 | 100001 | 105000 | 819,600 |
| 7 | 105001 | 110000 | 764,000 |
| 1 | 110001 | 115000 | 115,000 |
| 2 | 115001 | 120000 | 240,000 |
| 7 | 120001 | 125000 | 866,500 |
| 1 | 125001 | 130000 | 130,000 |
| 2 | 130001 | 135000 | 266,500 |
| 3 | 135001 | 140000 | 420,000 |
| 3 | 140001 | 145000 | 431,000 |
| 11 | 145001 | 150000 | 1,644,100 |
| 3 | 150001 | 155000 | 458,000 |
| 3 | 155001 | 160000 | 477,000 |
| 2 | 160001 | 165000 | 329,500 |
| 6 | 165001 | 170000 | 1,017,500 |
| 2 | 170001 | 175000 | 349,249 |
| 3 | 175001 | 180000 | 539,000 |
| 1 | 180001 | 185000 | 185,000 |
| 1 | 185001 | 190000 | 190,000 |
| 19 | 195001 | 200000 | 3,798,500 |
| 2 | 200001 | 205000 | 406,000 |
| 2 | 220001 | 225000 | 444,940 |
| 1 | 235001 | 240000 | 238,500 |
| 1 | 240001 | 245000 | 245,000 |
| 3 | 245001 | 250000 | 747,000 |
| 2 | 250001 | 255000 | 505,001 |
| 2 | 255001 | 260000 | 519,500 |
| 3 | 270001 | 275000 | 820,435 |
| 1 | 275001 | 280000 | 277,470 |
| 1 | 285001 | 290000 | 286,000 |
| 6 | 295001 | 300000 | 1,800,000 |
| 2 | 300001 | 305000 | 606,000 |

| Number of share Holders | Share Holding From | To | Total Share Held |
|-------------------------|--------------------|----------|------------------|
| 1 | 305001 | 310000 | 310,000 |
| 1 | 310001 | 315000 | 315,000 |
| 2 | 315001 | 320000 | 640,000 |
| 1 | 325001 | 330000 | 327,302 |
| 1 | 330001 | 335000 | 335,000 |
| 2 | 335001 | 340000 | 680,000 |
| 1 | 340001 | 345000 | 341,903 |
| 1 | 345001 | 350000 | 350,000 |
| 1 | 350001 | 355000 | 353,000 |
| 1 | 360001 | 365000 | 363,000 |
| 1 | 365001 | 370000 | 366,000 |
| 1 | 370001 | 375000 | 375,000 |
| 1 | 380001 | 385000 | 382,500 |
| 1 | 385001 | 390000 | 390,000 |
| 3 | 395001 | 400000 | 1,195,500 |
| 1 | 400001 | 405000 | 401,600 |
| 1 | 415001 | 420000 | 420,000 |
| 1 | 420001 | 425000 | 421,800 |
| 3 | 445001 | 450000 | 1,350,000 |
| 1 | 475001 | 480000 | 480,000 |
| 5 | 495001 | 500000 | 2,500,000 |
| 2 | 545001 | 550000 | 1,097,000 |
| 1 | 570001 | 575000 | 575,000 |
| 1 | 595001 | 600000 | 600,000 |
| 1 | 630001 | 635000 | 634,375 |
| 1 | 655001 | 660000 | 660,000 |
| 2 | 695001 | 700000 | 1,400,000 |
| 1 | 725001 | 730000 | 727,255 |
| 1 | 745001 | 750000 | 750,000 |
| 1 | 750001 | 755000 | 750,500 |
| 1 | 780001 | 785000 | 784,000 |
| 1 | 825001 | 830000 | 827,000 |
| 1 | 895001 | 900000 | 900,000 |
| 1 | 920001 | 925000 | 924,000 |
| 1 | 975001 | 980000 | 978,000 |
| 8 | 995001 | 1000000 | 7,995,118 |
| 1 | 1030001 | 1035000 | 1,033,638 |
| 1 | 1070001 | 1075000 | 1,073,642 |
| 2 | 1195001 | 1200000 | 2,400,000 |
| 1 | 1420001 | 1425000 | 1,424,362 |
| 1 | 1440001 | 1445000 | 1,442,000 |
| 1 | 1800001 | 1805000 | 1,804,000 |
| 1 | 1815001 | 1820000 | 1,819,500 |
| 1 | 2395001 | 2400000 | 2,400,000 |
| 1 | 2440001 | 2445000 | 2,444,000 |
| 2 | 2450001 | 2455000 | 4,901,900 |
| 1 | 2495001 | 2500000 | 2,500,000 |
| 2 | 2995001 | 3000000 | 5,996,749 |
| 1 | 3890001 | 3895000 | 3,894,858 |
| 1 | 7090001 | 7095000 | 7,092,500 |
| 1 | 7315001 | 7320000 | 7,320,000 |
| 1 | 11570001 | 11575000 | 11,571,500 |
| 1 | 22370001 | 22375000 | 22,371,376 |
| 1 | 22725001 | 22730000 | 22,727,180 |
| 1 | 39870001 | 39875000 | 39,870,345 |
| 1 | 56175001 | 56180000 | 56,179,000 |
| 5,437 | | | 300,000,000 |

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Categories of Shareholders

As at June 30,2013

| Name | NO OF SHARES | NOS | % |
|--|--------------|-------|-------|
| INDIVIDUALS | 117,093,023 | 5,329 | 39 |
| ASSOCIATED COMPANIES | | | |
| CHAMAN INVESTMENT (PVT) LTD | 34,500 | 1 | 0.01 |
| ARFEEN INTERNATIONAL (PVT) LTD | 3,086,749 | 2 | 1.03 |
| ENVICRETE LIMITED | 2,400,000 | 1 | 0.80 |
| WORLD TRADE CENTRE (PVT) LTD | 40,092,285 | 2 | 13.36 |
| INTERNATIONAL COMMUNICATION GROUP | 7,320,000 | 1 | 2.44 |
| ICG USA | 2,500,000 | 1 | 0.83 |
| GATES INTERNATIONAL LIMITED | 3,894,858 | 1 | 1.30 |
| GATES LTD | 3,085,275 | 2 | 1.03 |
| | 62,413,667 | 11 | 20.80 |
| JOINT STOCK COMPANIES | 66,398,662 | 62 | 22.13 |
| BANKS, DFI'S, NBFI'S, INSURANCE COMPANIES | 22,881,054 | 10 | 7.63 |
| MODARBAS AND MUTUAL FUNDS & OTHERS | 5,164,160 | 14 | 1.72 |
| | 94,443,876 | 86 | 31.48 |
| FOREIGN INVESTORS | | | |
| BOSTON SAFE DEPOSIT & TRUST | 1,500 | 1 | 0.00 |
| LEHMAN BROTHERS SECURITIES | 3,400 | 1 | 0.00 |
| BARING SECURITIES NOMINEES LTD | 400 | 1 | 0.00 |
| | 5,300 | 3 | 0.00 |
| DIRECTORS, CHIEF EXECUTIVE AND THEIR SPOUSES | | | |
| SULTAN UL ARFEEN | 1,426,362 | 2 | 0.48 |
| SHAHID FIROZ | 1,073,642 | 1 | 0.36 |
| SAMINA SHAHID | 450,000 | 1 | 0.15 |
| NIGHAT SULTANA | 301,000 | 1 | 0.10 |
| CHAMAN ARA BEGUM | 10,000 | 1 | 0.00 |
| SHAMS UL ARFEEN | 22,783,130 | 2 | 7.59 |
| | 26,044,134 | 8 | 8.68 |
| Total | 300,000,000 | 5,437 | 100 |



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