

# *Quarterly Accounts*

FOR THE YEAR ENDED MARCH 31, 2007  
(UN-AUDITED)

TELECARD



LIMITED

## **DIRECTORS' REPORT**

The Board of Directors of TeleCard Limited is pleased to present the Financial Statements and review of your Company's performance for the nine months period ended March 31, 2007.

### **Review of Current Operations**

The revenue for the quarter is Rs 600.682 million compared to Rs. 287.243 million for the last quarter. This is despite that the pressure on tariffs which have reduced significantly during the past one year; however, the company has managed to partially compensate the effect of tariff reductions with the growth in the traffic and number of users and optimization of its installed capacity. The reduced tariffs had its toll on gross margins. The performance for the quarter March, 2007 improved significantly over the last quarter and the company earned a gross profit of Rs 47.637 million which resulted in reduction of the gross loss for the nine months ended to Rs 87.766 million. The impact of higher depreciation charges and amortization of intangible assets also contributed towards the increase in direct costs. The increase in depreciation expense shows that the company has made massive infrastructure investment which will be critical to launch new services and to rapidly expand the network further.

The company has focused itself on substantially reducing debt and agreement has been reached with the TFC holders through the trustee for the prepayment of Rs. 600 million towards installments due in May, Nov 07 and May 08. The company has settled a long outstanding need thus reducing unnecessary debt and has obtained significant rightly priced commitments for financing the fresh expansion which has now been finally contracted to unleash the potential of the massive basic infrastructure the company now has in place throughout Pakistan.

### **Future Prospects**

The company itself and through its subsidiary, Supernet has become an alternate service provider and is providing fully integrated telecommunication services, these include basic wireless telephony, long distance and international, data services and payphones.

The company has now entered into direct interconnect arrangements with most major telecom operators and this has led to considerable reduced interconnect costs thus enhancing the company's gross margins.

The company already has one of the largest wireless infrastructures on the ground spread all over Pakistan and is expanding it further by covering new territories.

The company's exclusive collaboration deal with Special Communications Organization of the Pakistan army to market SCO WLL services in Azad Jammu and Kashmir leveraging our expertise in the WLL technology continues to grow profitably. The company in collaboration with SCO is enhancing the infrastructure to increase the customer base in AJK.

The deregulation of telecom market in Pakistan offers ample opportunities to players with existing operations and significant experience of the local market. Whilst there has been pressure on tariffs market continues to grow in existing segments and new segments. The company continues to pursue profitable growth in areas where it has sustainable competitive advantage.

### **Staff**

We would like to put on record the appreciation for all the staff and team members whose dedication and hard work has resulted in achieving the aggressive plans of the Company and putting the Company on the path to success. Without their untiring efforts this would not have been possible. We thank them and value their association.

### **General**

We would like to thank MoIT, PTA, PTCL, other operators and Suppliers for the cooperation extended by them in all the areas, and all the financial institutions, banks and leasing companies in showing confidence in the company and the management.

On behalf of the Board

**Shahid Firoz**  
Chief Executive

**April 30, 2007**

TELECARD LIMITED  
INTERIM CONDENSED BALANCE SHEET  
AS AT MARCH 31, 2007 (UN-AUDITED)

		March 31, 2007 (Un-Audited)	June 30, 2006 (Audited)
	Note .....	(Rs. in thousands).....	
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Fixed assets</b>			
Property and equipment	4	4,267,981	4,564,313
Intangible assets	5	3,234,751	3,248,910
		7,502,732	7,813,223
Long term investment in a subsidiary company	6	340,537	340,537
Long term loans and deposits		61,090	60,806
		7,904,359	8,214,566
<b>CURRENT ASSETS</b>			
Stock-in-trade		185,911	14,487
Trade debts	7	184,613	166,131
Loans and advances		23,666	17,931
Deposits and prepayments		45,218	80,423
Accrued mark-up	8	62,458	76,474
Other receivables	9	938,684	759,869
Taxation - net		124,244	100,820
Cash and bank balances	10	707,147	1,833,593
		2,271,941	3,049,728
<b>TOTAL ASSETS</b>		<b>10,176,300</b>	<b>11,264,294</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Share capital</b>			
<b>Authorised</b>			
400,000,000 (2006: 400,000,000) ordinary shares of Rs. 10 each		4,000,000	4,000,000
<b>Issued, subscribed and paid-up capital</b>			
300,000,000 (2006: 300,000,000) ordinary shares of Rs. 10 each		3,000,000	3,000,000
<b>Revenue Reserve</b>			
Unappropriated profit		194,898	634,850
		3,194,898	3,634,850
<b>NON-CURRENT LIABILITIES</b>			
Long-term finances		540,485	56,002
Redeemable capital	11	1,874,041	2,099,041
Liabilities against assets subject to finance Lease		70,059	113,831
Long-term Deposits		80,420	74,984
Due to Pakistan Telecommunication Authority (PTA) - Spectrum fee		1,585,500	1,585,500
Deferred liabilities		45,752	38,554
Deferred taxation		21,758	221,067
		4,218,015	4,188,979
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	1,783,658	1,809,370
Accrued mark-up		140,007	54,253
Short term borrowings	13	67,992	641,653
Short Term running finances		203,371	258,736
Current maturities of long term finances and liabilities against assets subject to finance lease	14	568,360	676,453
		2,763,388	3,440,465
<b>CONTINGENCIES AND COMMITMENTS</b>	15		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>10,176,300</b>	<b>11,264,294</b>

The annexed notes from 1 to 22 form an integral part of these interim condensed financial statements.

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Chief Executive

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Director

**TELECARD LIMITED**  
**INTERIM CONDENSED PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)**

	Note	Nine months ended		Quarter Ended	
		March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
..... (Rs. in thousands) .....					
<b>REVENUE - net</b>		1,510,011	1,979,560	600,682	688,791
Direct costs	16	(1,597,777)	(1,473,782)	(553,045)	(497,991)
<b>GROSS (LOSS) / PROFIT</b>		(87,766)	505,778	47,637	190,800
Other operating income	17	94,469	151,956	37,013	64,250
		6,702	657,734	84,651	255,050
Distribution cost and administrative expenses		(393,571)	(344,143)	(115,618)	(99,159)
		(386,868)	313,591	(30,967)	155,891
Finance costs	18	(238,399)	(316,439)	13,705	(117,056)
Other operating charges		(6,444)	(939)	186	(101)
		(244,843)	(317,378)	13,891	(117,157)
<b>LOSS BEFORE TAXATION</b>		(631,711)	(3,787)	(17,077)	38,734
Taxation	19	191,759	(5,235)	(6,869)	(20,488)
<b>LOSS AFTER TAXATION</b>		(439,952)	(9,022)	(23,946)	18,246
<b>(LOSS) PER SHARE</b>	<b>Rupees</b>	(1.467)	(0.091)	(0.080)	0.060

The annexed notes from 1 to 22 form an integral part of these interim condensed financial statements.

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Chief Executive

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Director

**TELECARD LIMITED**  
**INTERIM CONDENSED CASH FLOW STATEMENT**  
**FOR THE PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)**

	Nine months ended	
	March 31, 2007	March 31, 2006
	.....(Rs. in thousands).....	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
(Loss) / profit before taxation	(631,711)	(3,787)
<b>Adjustments for non cash charges and other items:</b>		
Depreciation	461,155	405,342
Provision for gratuity	10,770	8,930
Financial charges	238,399	316,439
Provision for doubtful debts	8,754	-
Amortization of intangible assets	113,506	112,490
Amortization of deferred cost in respect of WLL project	-	16,357
Deferred income	(1,707)	(1,454)
	830,878	858,104
<b>Profit before working capital changes</b>	199,166	854,317
<b>(Increase) / Decrease in current assets</b>		
Stock-in-trade	(171,424)	3,449
Trade debts	(18,482)	17,146
Loans and advances	(5,735)	1,229
Deposits, prepayments and other receivables	(135,348)	(159,383)
	(330,989)	(137,559)
<b>(Decrease) / increase in current liabilities</b>		
	(25,713)	(2,031,883)
<b>Cash generated from operations</b>	(157,535)	(1,315,125)
<b>Income Tax paid</b>		
Income Tax paid	(30,974)	(7,714)
Financial charges paid	(152,645)	(224,293)
Gratuity Paid	(2,273)	(2,027)
Long Term deposits and prepayments	(284)	419
Long Term deposits	5,436	4,472
	(180,740)	(229,143)
<b>Net cash (outflow) / inflow from operating activities</b>	(338,276)	(1,544,268)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure	(264,170)	(812,663)
Proceeds of sale and lease back of equipment	50,000	149,437
<b>Net cash used in investing activities</b>	(214,170)	(663,226)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Long term loans	491,482	2,361,821
Repayment of redeemable capital	(150,000)	(480)
Repayment of long term loans	(191,325)	(75,576)
Short Term Loans	(573,661)	(193,064)
Repayment of obligations under finance leases	(95,132)	(152,257)
<b>Net cash (outflow) / inflow from financing activities</b>	(518,636)	1,940,444
<b>NET DECREASE / INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,071,082)	(267,050)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	1,574,857	2,397,844
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	503,775	2,130,794

The annexed notes from 1 to 22 form an integral part of these interim condensed financial statements.

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Chief Executive

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Director

**TELECARD LIMITED**  
**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED MARCH 31, 2007 (UN-AUDITED)**

	<u>Share Capital</u>	<u>Revenue Reserve</u>	<u>Total</u>
	<u>Issued, suscribed and paid-up</u>	<u>Unappropriated Profit</u>	
	..... ( Rs. in thousands) .....		
<b>Balance as at June 30, 2005</b>	3,000,000	689,181	3,689,181
Net loss for the period ended March 31, 2006	-	(9,022)	(9,022)
<b>Balance as at March 31, 2006</b>	<u><b>3,000,000</b></u>	<u><b>680,159</b></u>	<u><b>3,680,159</b></u>
<b>Balance as at June 30, 2006</b>	<b>3,000,000</b>	<b>634,850</b>	<b>3,634,850</b>
Net loss for the period ended March 31, 2007	-	(439,952)	(439,952)
<b>Balance as at March 31, 2007</b>	<u><u><b>3,000,000</b></u></u>	<u><u><b>194,898</b></u></u>	<u><u><b>3,194,898</b></u></u>

The annexed notes from 1 to 22 form an integral part of these interim condensed financial statements.

\_\_\_\_\_  
Chief Executive

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Director

TELECARD LIMITED  
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2007

**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, these include 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. BASIS OF PREPARATION OF INTERIM CONDENSED FINANCIAL STATEMENTS**

These interim condensed financial statements are being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance 1984 and have been prepared in accordance with the requirements of International Accounting Standard(IAS) - 34 "Interim Financial Reporting", as applicable in Pakistan. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the company for the year ended June 30, 2006.

**3. ACCOUNTING POLICIES**

The accounting policies and methods of computation followed in the preparation of these interim condensed financial statements are same as those applied in preparing the financial statements for the year ended June 30, 2006.

	Note	March 31, 2 0 0 7	June 30, 2 0 0 6
..... (Rs. in thousands) .....			
<b>4. PROPERTY AND EQUIPMENT</b>			
Operating fixed assets	4.1	3,329,782	3,346,603
Capital work-in-progress	4.2	<u>938,199</u>	<u>1,217,710</u>
		<u><b>4,267,981</b></u>	<u><b>4,564,313</b></u>
<b>4.1. Operating fixed assets</b>			
Opening net book value		3,346,603	1,965,359
Additions during the:			
Nine months of the year	4.1.1	444,334	1,712,840
Three months of the year		-	291,842
		<u>444,334</u>	<u>2,004,682</u>
		<b>3,790,937</b>	3,970,041
Disposals during the period / year			
Nine months of the year		-	148,691
Three months of the year		-	12,455
Accumulated depreciation on disposals		-	(7,606)
Depreciation charged during the:			
Nine months of the year		461,155	405,342
Three months of the year		-	63,056
Impairment charged during the period / year		-	1,500
		<u><b>461,155</b></u>	<u>623,438</u>
		<u><b>3,329,782</b></u>	<u><b>3,346,603</b></u>

March 31,      March 31,  
2007          2006  
..... (Rs. in thousands) .....

**4.1.1. Details of additions during the period are as follows:**

**Owned**

Payphones and ancillary equipment	171,021	410,869
Wireless local loop equipment	265,234	760,656
LDI Equipment	36	270,454
Sign boards	1,567	2,025
Computers and related accessories	2,624	9,799
Furniture, fixtures and office equipment	2,287	8,403
	<b>442,769</b>	1,462,206

**Leased**

Payphones and ancillary equipment	-	58,988
Wireless local loop equipment	-	130,155
LDI Equipment	-	60,000
Vehicles	1,565	1,491
	<b>1,565</b>	250,634
	<b>444,334</b>	1,712,840

Note      March 31,      June 30,  
2007          2006  
(Un-Audited)      (Audited)  
..... (Rs. in thousands) .....

**4.2. CAPITAL WORK-IN-PROGRESS**

**Wireless local loop equipment**

Owned	848,963	1,171,785
Leased	70,000	20,000
	<b>918,963</b>	1,191,785
Advances to Suppliers	19,236	25,925
	<b>938,199</b>	1,217,710

**5. INTANGIBLE ASSETS**

Wireless local loop (WLL) license	3,493,529	3,394,182
Long distance International (LDI) license	29,029	29,029
	<b>3,522,558</b>	3,423,211
Less: Accumulated amortisation	287,807	174,301
	<b>3,234,751</b>	3,248,910

**6. LONG TERM INVESTMENT IN A SUBSIDIARY COMPANY**

**Unquoted**

Supernet Limited

[33,504,000 (June 30, 2006: 33,504,000) ordinary

shares of the nominal value of Rs. 10/- each]

[Breakup value Rs. 264.25 (June 30, 2006: 262.488) million]

**6.2      340,537      340,537**

**6.1** The Company holds 100 percent (June 30, 2006: 100 percent) ordinary shares of Supernet Limited. The management considers the investment as strategic and believes that the subsidiary Company would be able to achieve its full potential and would make adequate profit and generate positive cashflows. Based on these factors, the management considers that no provision for any impairment in the value of above investment is required at this stage.

**6.2** The break-up value of March 31, 2007 is based on the un-audited financial statements of the subsidiary company.

## 7. TRADE DEBTS - net

This includes Rs. 39.620 million (June 30, 2006: Rs. 39.620 million) in respect of payphones sold under installments plans carrying mark-up at the average rate of 4.15% (June 30, 2006: 4.15%) per annum.

## 8. ACCRUED MARK-UP

Includes mark-up of Rs. 15.60 million due from a commercial bank in respect of funds raised through Term Finance Certificates (TFCs) that are held by the said bank since April 20, 2005 whereas the mark-up was paid to the Company commencing from August 01, 2005. A claim in respect of the above has been lodged with the bank which is pending settlement. However, the management is confident about the recovery of the aforesaid mark-up.

	March 31, 2 0 0 7 (Un-Audited)	June 30, 2 0 0 6 (Audited)
.....	(Rs. in thousands)	.....

## 9. OTHER RECEIVABLES

Other receivables include amounts aggregating to Rs. 690.603 million that are due from Pakistan Telecommunication Company Limited (PTCL) in respect of:

Karachi Relief rebate	9.1	<b>651,541</b>	651,541
Interconnect discount	9.2	<b>28,701</b>	28,701
Optical fibre charges	9.3	<b>10,361</b>	10,361
		<b><u>690,603</u></b>	<b><u>690,603</u></b>

- 9.1. (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 (Reorganization) Act states that 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, GoP offered the Interim Relief Rebate Package. This arrangement was duly approved by the cabinet and announced, on behalf of GoP, by PTA.

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

The company, under the above-referred interim relief package, filed a law suit during the year ended June 30, 2000 against the PTCL in the Honorable High Court of Sindh for the recovery of Rs.71.276 million accrued upto October 1999 and consequential losses thereon aggregating to Rs.2, 261.924 million. The Honourable High Court of Sindh, 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 January 1997 to August 2001.

The company contends that the relief rebate allowed to it through 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 Honourable High Court of Sindh has allowed the application for injunction filed by the company against PTCL, whereby PTCL and PTA were restrained from taking any action for recovery of any amount in excess of approximately Rs. 334 million, which according to the Company was the amount due from PTCL on account of relief rebate as at that particular point in time.

Further, as of March 31, 2007 an aggregate sum of Rs. 698.690 million was due on account of Karachi Relief Rebate. however, on a prudent basis, the Company has accrued the same to the extent of Rs. 651.541 million in the financial statements of the current period.

In the opinion of the legal advisor of the company, the company has a strong case and the likelihood of losing the case is remote.

- (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 law suit discussed in (a) above. As per the above-referred legal advisor, the result of the above lawsuit of the company is correlated with the proceeding of the lawsuit, as referred to in note 9.1 (a) above. Accordingly, pending the decision the court in this respect, the company has not made any provision for the aforesaid claim in the financial statements.

The Honourable High Court of Sindh, 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.

- 9.2. Represents the amount of interconnect discount which is also subject to the determination of the final sum, as stated in note 9.1 (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 thereagainst in these financial statements.
- 9.3. Represents amounts over billed by the PTCL 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 of the matter of prudence, the management has made full provision against the above claim in these financial statements.

	Note	March 31, 2 0 0 7 (Un-Audited)	June 30, 2 0 0 6 (Audited)
..... (Rs. in thousands) .....			
<b>10. CASH AND BANK BALANCES</b>			
<b>At bank in</b>			
deposits accounts	10.1 & 10.2	702,339	1,825,158
Current accounts		1,578	5,296
<b>In hand</b>		<u>3,230</u>	<u>3,139</u>
		<u>707,147</u>	<u>1,833,593</u>

- 10.1 The deposit accounts carry effective mark-up rate ranging from 1.25% to 10% (June 30, 2006: 1.25% to 8%) per annum.
- 10.2 These include a term deposit of Rs. 68 (June 30, 2006: Rs. 258) million which is under lien with a commercial bank against credit facilities utilized by Supernet Limited - a wholly owned subsidiary of the company.

#### 11. REDEEMABLE CAPITAL

Balance as at July 01,	11.1	2,399,040	2,400,000
Less: Repayment during the period / year		(150,000)	(960)
Current maturity shown under current liabilities		<u>(374,999)</u>	<u>(299,999)</u>
		<u>1,874,041</u>	<u>2,099,041</u>

- 11.1 This represents listed Term Finance Certificates (TFCs) issued by the Company to financial institutions, trusts and general public for the purpose of acquisition of the radio spectrum frequencies from PTA and the related expansion / upgradation of wireless local loop network. Profit on these TFCs is payable on semi-annual basis in arrears at mark-up rate of six months KIBOR + 3.75% per annum. These are redeemable in ten unequal semi-annual instalments commencing November 2006. These are secured by a first specific charge over fixed assets of the Company with 25% margin and assignment of frequency rights (intangible assets) procured from PTA last year.

During the year, through a resolution passed in an extraordinary general meeting of the TFC holders of the Company, it was resolved that upon completion of certain formalities, the funds available in an escrow account with the trustee (a commercial bank) be released to the Company for the purposes of capital expenditure requirements of the Company.

		March 31, 2007 (Un-Audited)	June 30, 2006 (Audited)
..... (Rs. in thousands) .....			
<b>12. TRADE AND OTHER PAYABLES</b>			
<b>Trade creditors</b>			
PTCL charges	12.1	577,799	681,341
Supplier credit		35,729	47,133
Bills payable – equipment		705,081	735,372
Due to related parties	12.2	3,455	72,121
Others		66,405	36,539
		<b>1,388,469</b>	1,572,505
<b>Accrued expenses</b>		<b>52,554</b>	38,367
<b>Other liabilities</b>			
Pakistan Telecommunication Authority		<b>99,324</b>	72,353
Annual license fee – WLL			
Annual regulatory fee			
Annual spectrum fee			
Access charges payable to PTCL		<b>20,683</b>	21,864
Unearned income		<b>2,896</b>	18,092
Advances from customers		<b>37,187</b>	42,095
Sales tax – net		<b>118,134</b>	31,373
Provision for withholding tax		<b>52,208</b>	1,476
Unclaimed dividends		<b>6,216</b>	6,618
Others		<b>5,987</b>	4,624
		<b>342,635</b>	198,497
		<b>1,783,658</b>	1,809,369

**12.1** This amount represents net payable to PTCL in respect of their monthly bills, reduced by a sum of approximately Rs. 394.169 (2006: Rs. 171) million relating to wireless payphone billings and Rs. 182.08 (2006: Rs. 197) million relating to wireline billings and Rs. 245.466 million (June 30, 2006: Rs. 212 million) relating to wireless local loop and LDI billings, which the Company believes has been over billed by PTCL. During the period, the PTCL has submitted an application in the Court of Senior Civil Judge, Islamabad for arbitration in the aforesaid matter of billing differences and has claimed an aggregate sum of Rs. 1,043,632 million from the Company on account of unpaid bills, leased line charges, rolling advances etc. pertaining to wireless payphones. Against the said claim a provision to the extent of Rs. 662.398 million is included in the above payables to PTCL and the balance of Rs. 381.234 million is considered as overbilling and hence not provided for in these financial statements. The management is confident that the outcome of the above arbitration would be favourable and no additional liability would arise in this respect.

**12.2.** This represents amounts due to associated companies, namely:

Arfeen International (Private) Limited	-	56,529
Supernet Limited (a subsidiary company)	-	15,592
Pakcom Limited	<b>3,455</b>	-
	<b>3,455</b>	72,121

**13. SHORT TERM BORROWINGS - SECURED**

<b>Finance under mark-up arrangement</b>			
From banks		17,992	100,153
<b>Term finances</b>			
From banks		-	320,000
From an investment bank		50,000	117,000
<b>Loan from subsidiary - Unsecured</b>			
Supernet Limited		-	104,500
		<b>67,992</b>	641,653

	March 31, 2007 (Un-Audited)	June 30, 2006 (Audited)
	..... (Rs. in thousands) .....	

**14. CURRENT MATURITIES OF LONG TERM FINANCES AND LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

Long term finances	48,647	232,974
Obligations under finance leases	144,714	143,480
Redeemable capital	374,999	299,999
	<b>568,360</b>	<b>676,453</b>

**15. CONTINGENCIES AND COMMITMENTS**

**(a) Contingencies**

- 15.1** There has been no change in the status of contingencies reported in the financial statements for the year ended June 30, 2006, except as stated in note 12.1 to these financial statements.
- 15.2** The contingencies in respect of matters relating to PTCL including claim in respect of Karachi Relief Rebate, interconnect discount and overbilling etc. have been disclosed in note 9.1, 9.2, 9.3 and 12.1 to these financial statements
- 15.3** Contingent liability in respect of indirect taxes is not determinable at this stage.

**(b) Commitments**

15.4 Outstanding letters of credit	24,039	14,359
15.5 Counter guarantees given to banks	394,680	344,680
15.6 Commitments in respect of capital expenditure	152,075	150,875

Nine months ended		Quarter ended	
March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
.....(Un-Audited).....			
..... (Rs. in thousands) .....			

**16. DIRECT COSTS**

Interconnect charges	894,480	816,158	340,702	250,618
PTA charges	12,116	24,195	(15,856)	8,427
Cost of cards sold	7,137	9,334	1,553	3,598
Optical fiber network	22,039	53,162	5,466	26,027
Depreciation	440,756	383,169	135,921	143,690
Amortization of intangible assets	113,506	112,490	38,167	37,210
Network sites rent, utilities and maintenance	99,811	47,374	44,502	18,662
Royalty	-	1,200	-	400
Access charges to PTCL	-	4,500	-	1,500
Insurance	7,777	5,103	2,591	1,817
Amortization of deferred cost	-	16,357	-	5,628
Others	156	740	-	414
	<b>1,597,777</b>	<b>1,473,782</b>	<b>553,045</b>	<b>497,991</b>

Nine months ended		Quarter ended	
March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
.....(Un-Audited).....			
..... (Rs. in thousands) .....			

**17. OTHER OPERATING INCOME**

Amortization of gain on sale and lease back	1,707	1,454	176	-
Others (refer note 18)	<u>92,762</u>	150,502	<u>36,838</u>	64,250
	<u>94,469</u>	<u>151,956</u>	<u>37,013</u>	<u>64,250</u>

**18. FINANCE COSTS**

Financial charges for the period	298,324	316,439	46,220	117,056
Reclassification of mark-up on deposit relating to undisbursed portion held by bank as TFC trustee	<u>(59,925)</u>	-	<u>(59,925)</u>	-
	<u>238,399</u>	<u>316,439</u>	<u>(13,705)</u>	<u>117,056</u>

Mark-up relating to license fee portion of TFC amounting to Rs.67.408 million capitalised during the quarter.

**19. TAXATION**

Current	7,550	9,898	3,003	3,444
Deferred	<u>(199,309)</u>	(4,663)	<u>3,866</u>	17,044
	<u>(191,759)</u>	<u>5,235</u>	<u>6,869</u>	<u>20,488</u>

**20. TRANSACTIONS WITH RELATED PARTIES**

Related parties of the company comprise of a subsidiary company, associated companies, directors and key management personnel. Amounts due from and to related parties are disclosed in the relevant notes. Other material transactions with related parties are given below:

	March 31, 2007	March 31, 2006
	.....(Un-Audited).....	
	..... (Rs. in thousands) .....	
Services provided by Supernet Ltd.	<u>16,153</u>	<u>9,597</u>
Colocation sites obtained from Pakcom Ltd.	<u>59,655</u>	<u>-</u>
Services provided to Pakcom Ltd.	<u>53,909</u>	<u>-</u>
Rentals paid for ware house, lab and BTS site to Arfeen International	<u>6,140</u>	<u>540</u>
Repayment of loan obtained from Supernet	<u>104,500</u>	<u>-</u>

The above transactions are at arm's length using admissible valuation methods.

**21. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on April 30, 2007 by the Board of Directors of the company.

**22. GENERAL**

Figures have been rounded off to the nearest thousands.

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director