

# Financial Statements

For the year ended June 30, 2011





## Auditors' Report to the Members

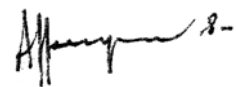
We have audited the annexed statement of financial position of Pakistan Telecommunication Company Limited ("the Company") as at June 30, 2011 and the related statement of comprehensive income, statement of cash flows and statement of changes in equity together with the notes forming part thereof, for 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.

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:

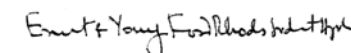
- (a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the statement of financial position and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts 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 statement of financial position, statement of comprehensive income, statement of cash flows 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 June 30, 2011 and of the comprehensive income, its cash flows and changes in equity for the year then ended; and
  - (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



**A. F. Ferguson & Co.**  
Chartered Accountants  
Islamabad

**Engagement Partner:**  
M. Imtiaz Aslam



**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants  
Islamabad

**Engagement Partner:**  
Pervez Muslim

Dated: September 07, 2011

# Statement of Financial Position

As at June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>Equity and liabilities</b>			
<b>Share capital and reserves</b>			
Share capital	6	51,000,000	51,000,000
Revenue reserves			
Insurance reserve		2,385,532	2,113,704
General reserve		30,500,000	30,500,000
Unappropriated profit		14,376,349	16,145,007
		47,261,881	48,758,711
Unrealized gain on available-for-sale investments		30,590	–
		98,292,471	99,758,711
<b>Non-current liabilities</b>			
Long-term security deposits	7	740,744	720,964
Deferred taxation	8	5,011,731	2,949,770
Employees' retirement benefits	9	16,823,015	15,512,803
Deferred government grants	10	3,631,585	1,632,701
		26,207,075	20,816,238
<b>Current liabilities</b>			
Trade and other payables	11	24,644,683	24,922,197
Payable to PTA against WLL license fee	12	–	1,894,950
Dividend payable		3,375,631	3,375,631
		28,020,314	30,192,778
<b>Total equity and liabilities</b>		<b>152,519,860</b>	<b>150,767,727</b>
<b>Contingencies and commitments</b>	13		

The annexed notes from 1 to 45 form an integral part of these financial statements.



Chairman

# Statement of Financial Position

As at June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>Assets</b>			
<b>Non-current assets</b>			
Fixed assets			
Property, plant and equipment	14	92,377,276	88,219,285
Intangible assets	15	3,036,127	3,079,031
		95,413,403	91,298,316
Long-term investments	16	6,607,439	6,681,965
Long-term loans	17	11,487,375	7,337,210
		113,508,217	105,317,491
<b>Current assets</b>			
Stores, spares and loose tools	18	3,369,488	4,075,863
Trade debts	19	9,171,851	10,171,530
Loans and advances	20	586,124	599,031
Accrued interest	21	508,863	571,127
Recoverable from tax authorities	22	12,572,963	7,164,971
Receivable from Government of Pakistan	23	2,164,072	2,164,072
Other receivables	24	366,997	787,633
Short-term investments	25	2,642,378	13,493,865
Cash and bank balances	26	7,628,907	6,422,144
		39,011,643	45,450,236
<b>Total assets</b>		<b>152,519,860</b>	<b>150,767,727</b>

  
President & CEO

# Statement of Comprehensive Income

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>Revenue</b>	27	55,254,014	57,174,527
Cost of services	28	(41,814,765)	(38,361,472)
<b>Gross profit</b>		13,439,249	18,813,055
Administrative and general expenses	29	(7,375,956)	(7,121,019)
Selling and marketing expenses	30	(2,281,485)	(2,142,324)
Other operating income	31	7,839,617	5,134,646
		(1,817,824)	(4,128,697)
<b>Operating profit</b>		11,621,425	14,684,358
Finance costs	32	(207,519)	(403,240)
<b>Profit before tax</b>		11,413,906	14,281,118
Taxation	33	(3,985,736)	(4,986,966)
<b>Profit for the year</b>		7,428,170	9,294,152
<b>Other comprehensive income for the year</b>			
Unrealized gain on available-for-sale investments - net of tax		30,590	–
<b>Total comprehensive income for the year</b>		7,458,760	9,294,152
<b>Earnings per share - basic and diluted (Rupees)</b>	34	1.46	1.82

The annexed notes from 1 to 45 form an integral part of these financial statements.

  
Chairman

  
President & CEO

# Statement of Cash Flows

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>Cash flows from operating activities</b>			
Cash generated from operations	36	21,499,720	24,899,178
Long-term security deposits		27,134	(269,091)
Employees' retirement benefits paid		(1,847,221)	(524,142)
Payment of other VSS components		(9,885)	(5,323)
Finance costs paid		(200,895)	(223,123)
Consideration paid against adjustment of tax losses of PTML		–	(1,198,943)
Income tax paid		(7,068,368)	(9,648,994)
Net cash inflows from operating activities		12,400,485	13,029,562
<b>Cash flows from investing activities</b>			
Capital expenditure		(15,766,753)	(12,870,439)
Acquisition of intangible assets		(200,405)	–
Proceeds from disposal of property, plant and equipment		141,901	140,578
Long-term investments		68,540	(1,074,526)
Short-term investments		–	1,221,886
Long-term loans - net		(98,014)	(53,655)
PTA WLL license fee		(1,894,950)	(210,550)
Loan to the wholly owned subsidiary - PTML		(4,000,000)	(4,000,000)
Return on long-term loans and short-term investments		3,363,326	3,952,363
Government grants received		2,077,688	571,657
Dividend income on long-term investments		3,180,000	695,239
Net cash outflows from investing activities		(13,128,667)	(11,627,447)
<b>Cash flows from financing activities</b>			
Dividend paid		(8,916,542)	(13,188,458)
Net cash outflows from financing activities		(8,916,542)	(13,188,458)
Net decrease in cash and cash equivalents		(9,644,724)	(11,786,343)
Cash and cash equivalents at the beginning of the year		19,916,009	31,702,352
Cash and cash equivalents at the end of the year	37	10,271,285	19,916,009

The annexed notes from 1 to 45 form an integral part of these financial statements.



Chairman



President & CEO

# Statement of Changes in Equity

For the year ended June 30, 2011

	Issued, subscribed and paid-up capital		Revenue reserves			Unrealised gain on available-for-sale investments	Total
	Class "A"	Class "B"	Insurance reserve	General reserve	Unappropriated profit		
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	
<b>Balance as at July 01, 2009</b>	37,740,000	13,260,000	1,683,074	30,500,000	16,206,485	–	99,389,559
<b>Total comprehensive income for the year</b>							
Profit for the year	–	–	–	–	9,294,152	–	9,294,152
Other comprehensive income	–	–	–	–	–	–	–
	–	–	–	–	9,294,152	–	9,294,152
<b>Transfer to insurance reserve</b>	–	–	430,630	–	(430,630)	–	–
<b>Transactions with owners:</b>							
Interim dividend for the year ended June 30, 2010 @ Rs 1.75 per ordinary share of Rs 10 each	–	–	–	–	(8,925,000)	–	(8,925,000)
Total transactions with owners	–	–	–	–	(8,925,000)	–	(8,925,000)
<b>Balance as at June 30, 2010</b>	37,740,000	13,260,000	2,113,704	30,500,000	16,145,007	–	99,758,711
<b>Total comprehensive income for the year</b>							
Profit for the year	–	–	–	–	7,428,170	–	7,428,170
Other comprehensive income	–	–	–	–	–	30,590	30,590
	–	–	–	–	7,428,170	30,590	7,458,760
<b>Transfer to insurance reserve</b>	–	–	271,828	–	(271,828)	–	–
<b>Transactions with owners:</b>							
Interim dividend for the year ended June 30, 2011 @ Rs 1.75 per ordinary share of Rs 10 each	–	–	–	–	(8,925,000)	–	(8,925,000)
Total transactions with owners	–	–	–	–	(8,925,000)	–	(8,925,000)
<b>Balance as at June 30, 2011</b>	37,740,000	13,260,000	2,385,532	30,500,000	14,376,349	30,590	98,292,471

The annexed notes from 1 to 45 form an integral part of these financial statements.



Chairman



President & CEO



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 1. The Company and its operations

Pakistan Telecommunication Company Limited (“the Company”) was incorporated in Pakistan on December 31, 1995 and commenced business on January 01, 1996. The Company, which is listed on the Karachi, Lahore and Islamabad stock exchanges, was established to undertake the telecommunication business formerly carried on by the Pakistan Telecommunication Corporation (PTC). PTC’s business was transferred to the Company on January 01, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996, on which date, the Company took over all the properties, rights, assets, obligations and liabilities of PTC, except those transferred to the National Telecommunication Corporation (NTC), the Frequency Allocation Board (FAB), the Pakistan Telecommunication Authority (PTA) and the Pakistan Telecommunication Employees Trust (PTET). The registered office of the Company is situated at PTCL Headquarters, G-8/4, Islamabad.

The Company provides telecommunication services in Pakistan. It owns and operates telecommunication facilities and provides domestic and international telephone services and other communication facilities throughout Pakistan. The Company has also been licensed to provide such services in territories of Azad Jammu and Kashmir and Gilgit-Baltistan.

## 2. Statement of compliance

These financial statements have been prepared in accordance with the 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, and 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.

### 2.1 Adoption of new and revised standards and interpretations:

The following amendments, revisions and interpretations to published accounting standards were not effective during the year and have not been early adopted by the Company:

		<u>Effective date (annual periods beginning on or after)</u>
IFRS 7	Financial instruments: Disclosures (Amendments)	January 01, 2011 & July 01, 2011
IAS 1	Presentation of financial statements (Amendments)	January 01, 2011 & July 01, 2012

### Effective date (annual periods beginning on or after)

IAS 12	Income taxes (Amendments)	January 01, 2012
IAS 19	Employee benefits (Amendments)	January 01, 2013
IAS 24	Related party disclosures (Revised)	January 01, 2011
IAS 27	Separate Financial Statements (Revised)	January 01, 2013
IAS 28	Investments in Associates and Joint Venture (Revised)	January 01, 2013
IAS 34	Interim Financial Reporting (Amendments)	January 01, 2011
IFRIC 13	Customer Loyalty Programmes (Amendments)	January 01, 2011
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction (Amendments)	January 01, 2011

The management anticipate that, except for the effects on the financial statements of amendments to IAS 19- “Employee Benefits”, the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the Company’s financial statements other than in presentation / disclosures. The application of the amendments to IAS 19 would result in the recognition of cumulative unrecognized actuarial gains / losses in other comprehensive income in the period of initial application, which cannot be presently quantified on the date of the statement of financial position.

Further, the following new standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan, for the purpose of their applicability in Pakistan:

		<u>Effective date (annual periods beginning on or after)</u>
IFRS 1	First-time adoption of international financial reporting standards (Amendments)	July 01, 2009
IFRS 9	Financial instruments	January 01, 2013
IFRS 10	Consolidated financial statements	January 01, 2013
IFRS 11	Joint arrangements	January 01, 2013
IFRS 12	Disclosure of interests in other entities	January 01, 2013
IFRS 13	Fair value measurement	January 01, 2013

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 3. Basis of preparation

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments at fair value and the recognition of certain employees' retirement benefits on the basis of actuarial assumptions.

## 4. Significant accounting judgements and estimates

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 judgment in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historic experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

### (a) Provision for employees' retirement benefits

The actuarial valuation of pension, gratuity, medical and compensated leave absence plans (note 5.19) requires the use of certain assumptions related to future periods, including an increase in remuneration/ medical costs, expected long-term returns on plan assets and the discount rate used to discount future cash flows to present values.

### (b) Provision for income taxes

The Company recognizes tax provisions using estimates based upon expert opinions of its tax and legal advisors. Differences, if any, between the recorded income tax provision and the Company's tax liability, are recorded on the final determination of such liability. Deferred income tax (note 5.18) is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted, by the date of the statement of financial position.

### (c) Useful life and residual value of fixed assets

The Company reviews the useful lives and residual values of fixed assets (note 5.10) on a regular basis. Any change in estimates, may affect the carrying amounts of the respective items of property, plant and equipment and intangible assets, with a corresponding effect on the related depreciation / amortization charge.

### (d) Provision for doubtful receivables

A provision against overdue receivable balances is recognized after considering, the pattern of receipts from, and the future financial outlook of, the concerned receivable party. It is reviewed by the management on a regular basis.

### (e) Provisions and contingent liabilities

The management exercises judgment in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

## 5. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years for which financial information is presented in these financial statements, unless otherwise stated.

### 5.1 Functional and presentation currency

Items included in the financial statements of the Company are measured and presented using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Pakistan Rupee (Rs).

### 5.2 Foreign currency transactions and translations

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities, denominated in foreign currencies, are translated into the functional currency using the exchange rate prevailing on the date of the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary items at year-end exchange rates, are charged to income for the year.

### 5.3 Insurance reserve

The assets of the Company are self insured, as the Company has created an insurance reserve for this purpose. Appropriations out of profits to this reserve, are made at the discretion of the Board of Directors. The reserve may be utilized to meet any losses of Company assets resulting from theft, fire, natural or other disasters.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 5.4 Government grants

Government grants are recognized at their fair values, as deferred income, when there is reasonable assurance that the grants will be received and the Company will comply with the conditions associated with the grants.

Grants that compensate the Company for expenses incurred, are recognized on a systematic basis in the income for the year in which the related expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in income on a systematic basis over the expected useful life of the related asset.

## 5.5 Borrowings and borrowing costs

Borrowings are recognized equivalent to the value of the proceeds received by the Company. Any difference, between the proceeds (net of transaction costs) and the redemption value, is recognized in income, over the period of the borrowings, using the effective interest method.

Borrowing costs, which are directly attributable to the acquisition and construction of a qualifying asset, are capitalized as part of the cost of that asset. All other borrowing costs are charged to income for the year.

## 5.6 Trade and other payables

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

## 5.7 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

## 5.8 Contingent liabilities

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, the existence of which will be confirmed only by the occurrence or non-occurrence, of one or more uncertain future events, not wholly within the control of the Company; or when the Company has a present legal or constructive obligation, that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

## 5.9 Dividend distribution

The distribution of the final dividend, to the Company's shareholders, is recognized as a liability in the financial statements in the period in which the dividend is approved by the Company's shareholders; the distribution of the interim dividend is recognized in the period in which it is declared by the Board of Directors.

## 5.10 Fixed assets

### (a) Property, plant and equipment

Property, plant and equipment, except freehold land, is stated at cost less accumulated depreciation and any identified impairment losses; freehold land is stated at cost less identified impairment losses, if any. Cost includes expenditure, related overheads, mark-up and borrowing costs referred to in note 5.5 that are directly attributable to the acquisition of the asset.

Subsequent costs, if reliably measurable, are included in the asset's carrying amount, or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the cost will flow to the Company. The carrying amount of any replaced parts as well as other repair and maintenance costs, are charged to income during the period in which they are incurred.

Depreciation on assets is calculated, using the straight-line method, to allocate their cost over their estimated useful lives, at the rates mentioned in note 14.1.

Depreciation on additions to property, plant and equipment, is charged from the month in which the relevant asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off. Impairment loss, if any, or its reversal, is also charged to income for the year. Where an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, over its estimated useful life.

The gain or loss on disposal of an asset, calculated as the difference between the sale proceeds and the carrying amount of the asset, is recognized in income for the year.

### (b) Intangible assets

#### (i) Licenses

These are carried at cost less accumulated amortization and any identified impairment losses. Amortization is calculated using the straight line method, to allocate the cost of the license over its estimated useful life specified in note 15, and is charged to income for the year.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

The amortization on licenses acquired during the year, is charged from the month in which a license is acquired / capitalized, while no amortization is charged in the month of expiry / disposal of the license.

## (ii) Computer software

These are carried at cost less accumulated amortization, and any identified impairment losses. Amortization is calculated, using the straight line method, to allocate the cost of the software over its estimated useful life, at the rate specified in note 15, and is charged to income for the year. Costs associated with maintaining computer software, are recognized as an expense as and when incurred.

Amortization on additions to computer software, is charged from the month in which the software is acquired or capitalized, while no amortization is charged for the month in which the software is disposed off.

## 5.11 Investments in subsidiaries and associates

Investments in subsidiaries and associates, where the Company has control or significant influence, are measured at cost in the Company's financial statements. The profits and losses of subsidiaries and associates are carried in the financial statements of the respective subsidiaries and associates, and are not dealt within the financial statements of the Company, except to the extent of dividends declared by these subsidiaries and associates.

## 5.12 Impairment of non-financial assets

Assets that have an indefinite useful life, for example freehold-land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment on the date of statement of financial position, or whenever events or changes in circumstances indicate, that the carrying amount may not be recoverable. An impairment loss is recognized, equal to the amount by which the assets' carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment, are reviewed for possible reversal of the impairment at each statement of financial position date. Reversals of the impairment loss are restricted to the original cost of the asset. An impairment loss, or the reversal of an impairment loss, are both recognized in the income for the year.

## 5.13 Stores, spares and loose tools

These are stated at the lower of cost and net realizable value. Cost is determined

using the moving average method. Items in transit are valued at cost, comprising invoice values and other related charges incurred up to the date of the statement of financial position.

## 5.14 Trade debts

Trade debts are carried at their original invoice amounts, less any estimates made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

## 5.15 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expires. All financial assets and liabilities are initially recognized at fair value plus transaction costs other than financial assets and liabilities carried at fair value through profit or loss. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to income for the year. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in income for the year.

### (a) Financial assets

#### Classification and subsequent measurement

The Company classifies its financial assets in the following categories: investments at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset.

#### (i) Fair value through profit or loss

Financial assets at fair value through profit or loss, include financial assets held for trading and financial assets, designated upon initial recognition, at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at their fair value, with changes therein recognized in the income for the year. Assets in this category are classified as current assets.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## (ii) Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold these assets to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment.

## (iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market. After initial measurement, these financial assets are measured at amortized cost, using the effective interest rate method, less impairment.

The Company's loans and receivables comprise 'Trade debts', 'Loans and advances', 'Accrued interest', 'Receivable from Government of Pakistan', 'Other receivables' and 'Cash and bank balances'.

## (iv) Available-for-sale

Available-for-sale financial assets are non-derivatives, that are either designated in this category, or not classified in any of the other categories. These are included in non-current assets, unless management intends to dispose them off within twelve months of the date of the statement of financial position.

After initial measurement, available-for-sale financial investments are measured at fair value, with unrealized gains or losses recognized as other comprehensive income, until the investment is derecognized, at which time the cumulative gain or loss is recognized in income for the year.

## Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## (b) Financial Liabilities

### Initial recognition and measurement

The Company classifies its financial liabilities in the following categories: at fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, also include directly attributable transaction costs.

### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

#### (i) Fair value through profit or loss

Financial liabilities at fair value through profit or loss, include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. The Company has not designated any financial liabilities upon initial recognition as being at fair value through profit or loss.

#### (ii) Other financial liabilities

After initial recognition, other financial liabilities which are interest bearing subsequently measured at amortized cost, using the effective interest rate method.

#### (c) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if the Company has a legally enforceable right to set-off the recognized amounts, and the Company either intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

## 5.16 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand and short-term highly liquid investments with original maturities of three months or less, and that are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

## 5.17 Revenue recognition

Revenue comprises of the fair value of the consideration received or receivable, for the provision of telecommunication, broadband and related services in the ordinary course of the Company's activities and is recognized net of services tax, rebates and discounts.

The Company principally obtains revenue from providing telecommunication services such as wireline and wireless services, interconnect, data services and equipment sales. Equipment and services may be sold separately or in bundled packages.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

Revenue is recognized, when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue, and the associated cost incurred or to be incurred, can be measured reliably, and when specific criteria have been met for each of the Company's activities as described below:

## (i) Rendering of telecommunication services

Revenue from telecommunication services comprises of amounts charged to customers in respect of wireline and wireless services, equipment sales and interconnect, including data services. Revenue also includes the net income received and receivable from revenue sharing arrangements entered into with overseas and local telecommunication operators.

### (a) Wireline and wireless services

Revenue from wireline business, mainly in respect of line rent, line usage and broadband, is invoiced and recorded as part of a periodic billing cycle.

Revenue from wireless business is recognized on the basis of consumption of prepaid cards which allow the forward purchase of a specified amount of airtime by customers; revenue is recognized as the airtime is utilized. Unutilized airtime is carried as deferred revenue."

### (b) Data services

Revenue from data services is recognized when the services are rendered.

### (c) Interconnect

Revenue from interconnect is recognized when the services are rendered.

### (d) Equipment sales

Revenue from sales of equipment is recognized when the equipment is delivered to the end customer and the sale is considered complete. For equipment sales made to intermediaries, revenue is recognized if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the equipment to the end customer by the intermediary or the expiry of the right of return.

## (ii) Income on bank deposits

Return on bank deposits and investments is recognised using the effective interest method.

## (iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

## 5.18 Taxation

The tax expense for the year comprises of current and deferred income tax, and is recognized in income for the year, except to the extent that it relates to items recognized directly in other comprehensive income, in which case the related tax is also recognized in other comprehensive income.

### (a) Current

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

### (b) Deferred

Deferred income tax is accounted for using the balance sheet liability method, in respect of all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, and the tax rates that have been enacted, or substantively enacted, by the date of the statement of financial position.

## 5.19 Employees' retirement benefits

The Company operates various retirement / post retirement benefit schemes. The plans are generally funded through payments determined by periodic actuarial calculations or up to the limits allowed in the Income Tax Ordinance, 2001. The Company has constituted both defined contribution and defined benefit plans.



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## (a) Defined contribution plan

The Company operates an approved funded provident plan covering its permanent employees. For the purposes of the plan, a separate trust, the "PTCL Employees' GPF Trust" (the Trust), has been established. Monthly contributions are deducted from the salaries of employees and are paid to the Trust by the Company. Interest is paid at the rate announced by the Federal Government, and this rate for the year was 14% (2010: 14%) per annum. The Company contributes to the fund, the differential, if any, of the interest paid / credited for the year and the income earned on the investments made by the Trust.

## (b) Defined benefit plans

The Company operates the following defined benefit plans:

### (i) Pension plans

The Company operates an approved funded pension plan through a separate trust, the "Pakistan Telecommunication Employees' Trust" (PTET), for its employees recruited prior to January 01, 1996 when the Company took over the business from PTC. The Company also operates an unfunded pension scheme for employees recruited on a regular basis, on or after January 01, 1996.

### (ii) Gratuity plan

The Company operates an unfunded and unapproved gratuity plan for its New Terms and Conditions (NTC) employees and contractual employees.

### (iii) Medical benefits plan

The Company provides a post-retirement medical facility to pensioners and their families. Under this unfunded plan, all ex-employees, their spouses, their children up to the age of 21 years (except unmarried daughters who are not subject to the 21 years age limit) and their parents residing with them and any other dependents, are entitled to avail the benefits provided under the scheme. The facility remains valid during the lives of the pensioner and their spouse. Under this facility there are no annual limits to the cost of drugs, hospitalized treatment and consultation fees.

## (iv) Accumulating compensated absences

The Company provides a facility to its employees for accumulating their annual earned leaves. Under this plan, regular employees are entitled to four days of earned leaves per month. Unutilized leave balances can be accumulated without limit and can be used at any time, subject to the Company's approval, upto: (i) 120 days in a year without providing a medical certificate and (ii) 180 days with a medical certificate, but not exceeding 365 days during the entire service of the employee. Up to 180 days of accumulated leave can be encashed on retirement, provided the employee has a minimum leave balance of 365 days. Leaves are encashed at the rate of the latest emoluments applicable to employees, for calculating their monthly pension.

New Compensation Pay Grade (NCPG) employees are entitled to 20 leaves after completion of one year of service. Leaves can be accumulated after completion of the second year of service, upto a maximum of 28 days.

NTC / contractual employees are entitled to three days of earned leaves per month. Unutilized leave balances can be accumulated without limit. Up to 180 days of accumulated leaves can be encashed at the end of the employees' service, based on the latest drawn gross salary.

The liability recognized in the statement of financial position in respect of defined benefit plans, is the present value of the defined benefit obligations at the date of the statement of financial position less the fair value of plan assets, if any, together with adjustments for unrecognized actuarial gains / losses, if any.

The defined benefit obligations are calculated annually, by an independent actuary using the projected unit credit method. The most recent valuations were carried out as at June 30, 2011. The present value of a defined benefit obligation is determined, by discounting the estimated future cash outflows, using the interest rates of high-quality corporate bonds that are nominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, in excess of the 'corridor' (10% of the higher of the fair value of the plan assets or the present value of the defined benefit obligation) at the beginning of the current reporting year, are recognized in the statement of comprehensive income, over the expected average remaining working lives of employees participating in the defined benefit plan. Actuarial gains and losses arising on compensated absences are recognized immediately.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 6. Share capital

### 6.1 Authorized share capital

2011 (Number of shares '000)	2010		2011 Rs '000	2010 Rs '000
11,100,000	11,100,000	"A" class ordinary shares of Rs 10 each	111,000,000	111,000,000
3,900,000	3,900,000	"B" class ordinary shares of Rs 10 each	39,000,000	39,000,000
<u>15,000,000</u>	<u>15,000,000</u>		<u>150,000,000</u>	<u>150,000,000</u>

### 6.2 Issued, subscribed and paid up capital

2011 (Number of shares '000)	2010		2011 Rs '000	2010 Rs '000
3,774,000	3,774,000	"A" class ordinary shares of Rs 10 each issued as fully paid for consideration other than cash - note 6.3 and note 6.5	37,740,000	37,740,000
1,326,000	1,326,000	"B" class ordinary shares of Rs 10 each issued as fully paid for consideration other than cash - note 6.3 and note 6.6	13,260,000	13,260,000
<u>5,100,000</u>	<u>5,100,000</u>		<u>51,000,000</u>	<u>51,000,000</u>

6.3 These shares were initially issued to the Government of Pakistan, in consideration for the assets and liabilities transferred from Pakistan Telecommunication Corporation (PTC) to Pakistan Telecommunication Company Limited (PTCL), under the Pakistan Telecommunication (Re-organization) Act, 1996, as referred to in note 1.

6.4 Except for voting rights, the "A" and "B" class ordinary shares rank pari passu in all respects. "A" class ordinary shares carry one vote and "B" class ordinary shares carry four votes, save for the purposes of election of directors. "A" class ordinary shares cannot be converted into "B" class ordinary shares; however, "B" class ordinary shares may be converted into "A" class ordinary shares, at the option, exercisable in writing and submitted to the Company, by the holders of three fourths of the "B" class ordinary shares. In the event of termination of the license issued to the Company, under the provisions of Pakistan Telecommunication (Re-organization) Act, 1996, the "B" class ordinary shares shall be automatically converted into "A" class ordinary shares.

6.5 The Government of Pakistan, through an "Offer for Sale" document, dated July 30, 1994, issued to its domestic investors, a first tranche of vouchers exchangeable for "A" class ordinary shares of the Company; subsequently, through an Information Memorandum dated September 16, 1994, a second tranche of vouchers was issued to international investors, also exchangeable, at the option of the voucher holders, for "A" class ordinary shares or Global Depository Receipts (GDRs) representing "A" class ordinary shares of the Company. Out of 3,774,000 thousand "A" class ordinary shares, vouchers against 601,084 thousand "A" class ordinary shares were issued to the general public. Till June 30, 2011, 599,514 thousand (2010: 599,506 thousand) "A" class ordinary shares had been exchanged for such vouchers.



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

**6.6** In pursuance of the privatization of the Company, a bid was held by the Government of Pakistan on June 08, 2005 for sale of "B" class ordinary shares of Rs 10 each, conferring management control. Emirates Telecommunication Corporation, UAE (Etisalat) was the successful bidder. The 26% (1,326,000,000 shares) "B" class ordinary shares, along with management control, were transferred, with effect from April 12, 2006, to Etisalat International Pakistan (EIP), UAE which is a subsidiary of Etisalat.

## 7. Long-term security deposits

These represent non-interest bearing security deposits received from the customers of the Company. The Company has adjusted / paid a sum of Rs 79,187 thousand (2010: Rs 222,751 thousand) during the current year against balances of customers.

## 8. Deferred taxation

The liability for deferred taxation comprises of timing differences relating to:

Accelerated tax depreciation / amortization		10,468,989	9,803,496
Provision for doubtful trade debts		(5,343,100)	(6,788,892)
Provision for doubtful advances and receivables		(114,158)	(64,834)
		<u>5,011,731</u>	<u>2,949,770</u>

The gross movement in the deferred tax liability during the year is as follows:

Balance as at July 01		2,949,770	2,379,000
Charge for the year	33	2,061,961	570,770
		<u>5,011,731</u>	<u>2,949,770</u>

## 9. Employees' retirement benefits

Liabilities for pension obligations

Funded	9.1	5,618,854	5,283,449
Unfunded	9.1	1,350,323	1,086,113
		<u>6,969,177</u>	<u>6,369,562</u>
Gratuity - unfunded	9.1	628,804	498,256
Accumulating compensated absences	9.1	957,642	926,338
Post-retirement medical facility	9.1	8,267,392	7,718,647
		<u>16,823,015</u>	<u>15,512,803</u>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

9.1 The latest actuarial valuations of the Company's defined benefit plans, were conducted at June 30, 2011 using the projected unit credit method. Details of obligations for defined benefit plans are as follows:

	Pension				Gratuity - unfunded		Accumulating compensated absences		Post-retirement medical facility		Total	
	Funded		Unfunded		2011	2010	2011	2010	2011	2010	2011	2010
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
<b>a) The amounts recognized in the statement of financial position:</b>												
Present value of defined benefit obligations	65,980,987	62,752,225	1,313,614	1,139,102	515,026	423,702	957,642	926,338	9,326,900	7,807,167	78,094,169	73,048,534
Fair value of plan assets –note 9.3	(56,480,703)	(53,521,666)	–	–	–	–	–	–	–	–	(56,480,703)	(53,521,666)
Deficit	9,500,284	9,230,559	1,313,614	1,139,102	515,026	423,702	957,642	926,338	9,326,900	7,807,167	21,613,466	19,526,868
Unrecognized actuarial (gains) / losses	(3,881,430)	(3,947,110)	36,709	(52,989)	113,778	74,554	–	–	(1,059,508)	(88,520)	(4,790,451)	(4,014,065)
Liability as at June 30	5,618,854	5,283,449	1,350,323	1,086,113	628,804	498,256	957,642	926,338	8,267,392	7,718,647	16,823,015	15,512,803
<b>b) Changes in the present value of defined benefit obligations:</b>												
Balance as at July 01	62,752,225	53,610,885	1,139,102	932,231	423,702	314,871	926,338	1,025,164	7,807,167	6,448,686	73,048,534	62,331,837
Current service cost	515,736	542,494	132,290	137,708	109,430	103,717	32,214	36,900	101,554	64,186	891,224	885,005
Interest cost	7,530,269	6,433,306	136,692	111,868	50,844	37,785	111,161	123,020	936,860	773,842	8,765,826	7,479,821
Past service cost	–	270,000	–	–	–	–	–	–	–	–	–	270,000
Actuarial (gains) / losses	(431,751)	6,098,147	(89,698)	(37,370)	(44,588)	(5,358)	(71,038)	(202,585)	970,988	955,960	333,913	6,808,794
Benefits paid	(4,385,492)	(4,202,607)	(4,772)	(5,335)	(24,362)	(27,313)	(41,033)	(56,161)	(489,669)	(435,507)	(4,945,328)	(4,726,923)
	65,980,987	62,752,225	1,313,614	1,139,102	515,026	423,702	957,642	926,338	9,326,900	7,807,167	78,094,169	73,048,534
<b>c) Charge for the year:</b>												
Current service cost	515,736	542,494	132,290	137,708	109,430	103,717	32,214	36,900	101,554	64,186	891,224	885,005
Interest cost	7,530,269	6,433,306	136,692	111,868	50,844	37,785	111,161	123,020	936,860	773,842	8,765,826	7,479,821
Past service cost	–	270,000	–	–	–	–	–	–	–	–	–	270,000
Expected return on plan assets	(6,422,600)	(6,512,558)	–	–	–	–	–	–	–	–	(6,422,600)	(6,512,558)
Actuarial (gains) / losses	–	–	–	–	(5,364)	(7,541)	(71,038)	(202,585)	–	(17,121)	(76,402)	(227,247)
Contribution from deputationists	(614)	(175)	–	–	–	–	–	–	–	–	(614)	(175)
	1,622,791	733,067	268,982	249,576	154,910	133,961	72,337	(42,665)	1,038,414	820,907	3,157,434	1,894,846
<b>d) Significant actuarial assumptions at the date of the statement of financial position:</b>												
Expected rate of return on plan assets	12%	13%										
Discount rate	14%	12%	14%	12%	14%	12%	14%	12%	14%	12%		
Future salary / medical cost increase	9%	9%	9%	9%	9%	9%	9%	9%	13%	11%		
Future pension increase	8%	8%	8%	8%								
Average expected remaining working lives of members	13 years	13 years	17 years	16 years	6 years	6 years			14 years	14 years		
Expected mortality rate	EFU 61–66*		EFU 61–66*		EFU 61–66*		EFU 61–66*		EFU 61–66*			
Expected withdrawal rate	Based on experience		Based on experience		Based on experience		Based on experience		Based on experience			

\* Mortality table adjusted for Company's experience

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 9.2 Historical information

	2011 Rs '000	2010 Rs '000	2009 Rs '000	2008 Rs '000	2007 Rs '000
<b>Defined benefit pension plan - funded</b>					
Present value of defined benefit obligations as at June 30	65,980,987	62,752,225	53,610,885	50,105,610	36,529,541
Fair value of plan assets as at June 30	(56,480,703)	(53,521,666)	(50,096,598)	(48,441,436)	(45,158,318)
Deficit / (surplus) in the plan	9,500,284	9,230,559	3,514,287	1,664,174	(8,628,777)
Experience adjustments on plan liabilities (gains) / losses	(431,751)	6,098,147	953,077	778,679	2,581,597
Experience adjustment on plan assets - (losses) / gains	(366,071)	1,115,117	(1,735,854)	(522,664)	3,776,675
<b>Defined benefit pension plan - unfunded</b>					
Present value of defined benefit obligations as at June 30	1,313,614	1,139,102	932,231	709,378	1,180,770
Experience adjustment on plan liabilities - (gains) / losses	(89,698)	(37,370)	83,101	1,764	(96,454)
<b>Defined benefit gratuity plan - unfunded</b>					
Present value of defined benefit obligations as at June 30	515,026	423,702	314,871	251,226	111,444
Experience adjustment on plan liabilities - (gains) / losses	(44,588)	(5,358)	(51,220)	41,126	(77,172)
<b>Defined benefit accumulating compensated absences</b>					
Present value of defined benefit obligations as at June 30	957,642	926,338	1,025,164	833,006	1,871,553
Experience adjustment on plan liabilities - (gains) / losses	(71,038)	(202,585)	39,239	12,990	21,748
<b>Defined benefit post-retirement medical facility</b>					
Present value of defined benefit obligations as at June 30	9,326,900	7,807,167	6,448,686	5,195,430	4,798,947
Experience adjustment on plan liabilities - (gains) / losses	970,988	955,960	940,121	(51,761)	(274,176)

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	2011 Rs '000	2010 Rs '000
<b>9.3 Changes in the fair value of plan assets</b>		
Defined benefit pension plan - funded		
Balance as at July 01	53,521,666	50,096,598
Expected return on plan assets	6,422,600	6,512,558
Contributions made by the Company during the year	1,288,000	-
Benefits paid	(4,385,492)	(4,202,607)
Actuarial (losses) / gains on plan assets	(366,071)	1,115,117
Balance as at June 30	<u>56,480,703</u>	<u>53,521,666</u>
Actual return on plan assets	<u>6,056,529</u>	<u>7,627,675</u>

The expected return on plan assets is based on market expectations, and depends upon the asset portfolio of PTET, held at the beginning of the year, for returns over the entire life of the related obligations.

**9.4** Major categories of plan assets of the defined benefit pension plan - funded, as a percentage of total plan assets, are as follows:

	2011 (Percentage)	2010 (Percentage)
Special Savings Certificates	87	84
Pakistan Investment Bonds	1	6
Fixed and other assets	12	10
Total	<u>100</u>	<u>100</u>

**9.5** During the next financial year, the expected contribution to be paid to the funded pension plan by the Company is Rs 1,883,438 thousand (2010: Rs 1,623,346 thousand).

**9.6** Effect of increase / decrease in total medical cost trend rate

The effect of 1% increase in the medical cost trend rate, on current service cost and interest cost, is Rs 31,033 thousand (2010: Rs 22,523 thousand) and the effect of 1% decrease in the medical cost trend rate, on current service cost and interest cost, is Rs 26,301 thousand (2010: Rs 18,691 thousand).

The effect of 1% increase in the medical cost trend rate, on the present value of defined benefit obligations for medical cost, is Rs 2,765,426 thousand (2010: Rs 2,295,307 thousand) and the effect of 1% decrease in the medical cost trend rate, on the present value of defined benefit obligations for medical cost, is Rs 2,311,206 thousand (2010: Rs 1,904,949 thousand).

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>10. Deferred government grants</b>			
	10.1		
Balance as at July 01		1,632,701	1,061,044
Received during the year		2,077,688	571,657
Amortization for the year		(78,804)	–
		3,631,585	1,632,701
<b>10.1</b>	These represent grants received from the Universal Service Fund, as assistance towards the development of telecommunication infrastructure in rural areas, comprising telecom infrastructure projects for basic telecom access, transmission and broadband services spread across the country.		
<b>11. Trade and other payables</b>			
Trade creditors		8,663,654	6,704,617
Accrued liabilities	11.2	2,103,501	1,799,216
Receipts against third party works		458,422	678,439
Income tax:			
Collected from subscribers		227,388	411,635
Deducted at source		46,063	4,669
		273,451	416,304
Sales tax payable		223,958	993,095
Advances from customers		2,187,583	1,705,615
Technical services assistance fee	29.2	456,399	447,441
Retention money payable to contractors / suppliers		4,904,015	5,394,281
Payable to:			
Research and Development Fund	29.4	2,993,520	2,773,454
Universal Service Fund		1,874,355	3,523,508
Pakistan Telecommunication Authority		247,725	6,542
Unclaimed dividend		139,711	131,253
VSS benefits payable		45,849	55,734
Consideration payable related to acquisition of MAXCOM		35,484	67,396
Other liabilities		37,056	225,302
		24,644,683	24,922,197

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	2011 Rs '000	2010 Rs '000
<b>11.1 Trade and other payables include payable to the following related parties</b>		
Trade creditors		
Pak Telecom Mobile Limited (PTML)	14,878	140,436
TF Pipes Limited	3,719	2,621
Etisalat - UAE	333,442	197,911
Etisalat - Afghanistan	12,659	–
Telecom Foundation	10,118	49,365
	<u>374,816</u>	<u>390,333</u>
Technical services assistance fee:		
Etisalat - UAE	456,399	447,441
Retention money payable to contractors / suppliers		
Telecom Foundation	108,451	161,607

These balances relate to the normal course of business of the Company and are interest free.

- 11.2** These include a sum of Rs 706,618 thousand (2010: Rs 640,711 thousand), representing a provision against EOBI contributions payable, under the EOBI Act 1976, for employees hired subsequent to PTCL's incorporation. The Company has withheld payments to EOBI, pending the settlement of the court case, as discussed in note 13.3. The provision made during the year is Rs 65,907 thousand (2010: Rs 67,556 thousand).

	2011 Rs '000	2010 Rs '000
<b>12. Payable to PTA against WLL license fee</b>		
Amount due	1,894,950	2,105,500
Present value adjustment	(631,756)	(631,756)
Present value of amount due	1,263,194	1,473,744
Imputed interest charged to date	631,756	631,756
	<u>1,894,950</u>	<u>2,105,500</u>
Payment made during the year	(1,894,950)	(210,550)
	<u>–</u>	<u>1,894,950</u>

## 13. Contingencies and commitments

### Contingencies

- 13.1** A total of 1,684 cases (2010: 1,574 cases) have been filed against the Company primarily involving subscribers and employees. Because of the number of cases involved and their uncertain nature, it is not possible to quantify their financial impact at present. However, the management and the Company's legal advisors, are of the view that the outcome of these cases is expected to be favourable and a liability, if any, arising on the settlement of these cases is not likely to be material. Accordingly no provision has been made in these financial statements in this regard.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

- 13.2** In 1995, the Government of Pakistan (GoP), in the interest of public safety, passed an order to close transmission of all messages, inter-alia, through card phone services and mobile telephone services, within and outside the city of Karachi. Telecard Limited, a pay card service provider, served a legal notice on the GoP, seeking a restoration of its services and claimed damages from the GoP, amounting to Rs 2,261,924 thousand. The GoP ordered the immediate restoration of Pay Card services, including rebate relief and discounts to all pay phone service providers. In view of the relief and discounts offered by the GoP, Telecard Limited withheld payments on account of their monthly bills to the Company, and obtained a stay order from the Honorable Sindh High Court, for an amount of Rs 110,033 thousand against the Company.

On the instructions of the Honorable Court, external consultants calculated the total amount of the rebate and discount, amounting to Rs 349,953 thousand, payable by the Company to Telecard Limited for the period from January 1997 to August 2001. In the suit, final arguments of the parties are to be reheard. The Company has also filed a counter claim against Telecard Limited for aggregate receivables, amounting to Rs 334,099 thousand, up to December 31, 2001. The management and the Company's legal advisors, are of the view that the outcome of the case is expected to be favourable. Pending the decision of the courts, no provision has been made in these financial statements.

In a similar case, Telefon, lodged a claim of Rs 97,337 thousand against the Company. In the last hearing, held on May 09, 2006, issues were framed and a decision made to record evidence in subsequent hearings. The management and the Company's legal advisors, are of the view that the outcome of the appeal is expected to be favourable. Pending the decision of the court, no provision has been made in these financial statements.

- 13.3** In February 2007, The Employees' Old age Benefits Institute (EOBI) served a demand notice on the Company under section 12(3) of the Employees' Old Age Benefits Act, 1976 (EOBI Act) for payment of the Company's and its employees' contributions, amounting to Rs 1,496,829 thousand, for the period January 1996 to May 2005. In November 2010, EOBI served an additional demand notice for the payment of the Company's and its employees' contributions, amounting to Rs 1,128,633 thousand, for the period June 2005 to October 2010, along with a statutory increase of Rs 564,316 thousand @ 2% per month. This resulted in an aggregate demand of Rs 3,189,778 thousand, for the period January 1996 to October 2010, for which a fresh demand notice was served by EOBI in January 2011. The management has filed a writ petition against this demand before the Honorable Islamabad High Court, which is pending adjudication. However, management and the Company's legal advisor are of the view that the case will be decided in the favour of the Company. No provision has accordingly been made in these financial statements for employees hired prior to PTCL's incorporation.

- 13.4** An assessment order was passed by the Taxation Officer, on the basis of a revised return for the tax year 2007, filed by the Company on June 30, 2009, creating an additional demand of Rs 5,185,163 thousand, by disallowing certain expenses under section 122(5A) of the Income Tax Ordinance, 2001.

The Company has filed an appeal against this order before the Commissioner Inland Revenue-Appeals (CIR-Appeals), who has granted relief of Rs 297,793 thousand. The Company is in the process of filing an appeal to the ATIR against this order. No provision on this account has been made in these financial statements, as the management and the tax advisor of the Company are of the view, that the matter will eventually be settled in favour of the Company.

- 13.5** For tax year 2008, the Taxation Officer (TO) raised a demand of Rs 4,559,208 thousand, on the plea that the Company has erroneously applied an average rate of tax, while deducting withholding tax from payments made to employees under the Voluntary Separation Scheme (VSS), as the required options before the concerned Commissioners of income tax, were not filed by such employees. The CIT-(Appeal) upheld the decision of TO and while disposing off the ensuing second appeal, the Honorable ATIR remanded the case back to the TO, for verification of filing of options before the concerned Commissioners, in the light of the related law. The company has also filed a reference application with the Honorable Islamabad High Court, which is pending adjudication. No provision on this account has been made in these financial statements, as the management and the tax advisor of the Company are of the view, that the matter will eventually be settled in favour of the Company.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

- 13.6** For the tax year 2008, the Taxation Officer (TO) also raised a demand of Rs 4,111,590 thousand, by disallowing the commutation of Pension paid by the Company to VSS optees, on the plea that the Company has made this payment on behalf of the PTET, an approved Pension Fund.

The CIR (Appeals) upheld the order of the Taxation Officer, while deciding the appeal of the Company against order of the TO. The Company filed an appeal before the Appellate Tribunal Inland Revenue (ATIR) against the order of CIR-Appeals which is pending for adjudication. Based on the hearing of ATIR, the management and tax advisor of the Company are of the view, that the matter will eventually settle in the favour of the Company. Accordingly, no provision has been accounted for in the these financial statements.

- 13.7** During the year, the Taxation Officer has disallowed certain expenses for the tax year 2009, (under section 122(5A) of the Income Tax Ordinance, 2001), and created an additional demand of Rs 4,638,249 thousand, which was subsequently reduced to Rs 3,439,222 thousand, through rectification.

The Company has filed an appeal against the order of the TO, before the CIR-Appeals, which is pending adjudication. No provision on this account has been made in these financial statements, as the management and the tax advisor of the Company are of the view, that the litigation will eventually be settled in the favour of the Company.

- 13.8** Based on an audit of the Federal Excise Duty (FED) returns submitted for the period from July 2004 to June 2009, the Deputy Commissioner of Inland Revenue (DCIR), raised a demand of Rs 1,018,568 thousand, on the premise that the Company has claimed total input tax, without apportioning the same between allowable and exempt supplies, and that the exempt supplies were also not declared in these returns. The Company is in appeal against the said order, before the CIR-Appeals and the Honorable Islamabad High Court has granted a stay order in this regard.

No provision on this account has been made in these financial statements, as the management and the Company's tax advisor consider, that based on the underlying legal and factual position, the litigation would eventually be settled in the Company's favour.

	2011 Rs '000	2010 Rs '000
<b>13.9 Bank guarantees and bid bonds issued in favour of:</b>		
Universal Service Fund (USF) against government grants	3,082,697	3,087,311
Others	293,242	314,254
	<u>3,375,939</u>	<u>3,401,565</u>

## 13.10 Commitments

Commitments, in respect of contracts for capital expenditure, amount to Rs 15,106,081 thousand (2010: Rs 14,127,643 thousand).

	Note	2011 Rs '000	2010 Rs '000
<b>14. Property, plant and equipment</b>			
Operating fixed assets	14.1	73,788,459	73,960,689
Capital work-in-progress	14.6	18,588,817	14,258,596
		<u>92,377,276</u>	<u>88,219,285</u>



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 14.1 Operating fixed assets

	Land		Buildings on		Lines and wires	Apparatus, plant and equipment	Office equipment	Computer equipment	Furniture and fittings	Vehicles	Submarine cables	Total
	Freehold - note 14.2	Leasehold	Freehold land	Leasehold land								
	Rs '000	Rs '000	Rs '000	Rs '000								
<b>As at July 01, 2009</b>												
Cost	1,643,781	77,418	10,048,319	1,009,184	104,573,408	123,264,636	739,540	450,385	455,345	1,359,277	5,715,407	249,336,700
Accumulated depreciation	-	(22,999)	(2,948,419)	(376,619)	(75,954,731)	(87,781,111)	(389,267)	(231,704)	(316,003)	(1,076,706)	(2,508,378)	(171,605,937)
Net book value	1,643,781	54,419	7,099,900	632,565	28,618,677	35,483,525	350,273	218,681	139,342	282,571	3,207,029	77,730,763
<b>Year ended June 30, 2010</b>												
Opening net book value	1,643,781	54,419	7,099,900	632,565	28,618,677	35,483,525	350,273	218,681	139,342	282,571	3,207,029	77,730,763
Additions	683	-	175,010	-	1,859,648	6,286,613	19,961	53,779	8,798	19,391	24,548	8,448,431
Disposals												
Cost	-	-	(502)	-	(144,353)	(1,314,549)	(10,638)	(1,286)	(7,355)	(49,832)	-	(1,528,515)
Accumulated depreciation	-	-	328	-	144,353	1,314,506	10,217	1,286	7,331	47,071	-	1,525,092
	-	-	(174)	-	-	(43)	(421)	-	(24)	(2,761)	-	(3,423)
Depreciation charge for the year	-	(1,277)	(251,659)	(25,225)	(4,355,835)	(6,948,690)	(74,517)	(48,467)	(24,658)	(102,208)	(382,546)	(12,215,082)
Net book value	1,644,464	53,142	7,023,077	607,340	26,122,490	34,821,405	295,296	223,993	123,458	196,993	2,849,031	73,960,689
<b>As at July 01, 2010</b>												
Cost	1,644,464	77,418	10,222,827	1,009,184	106,288,703	128,236,700	748,863	502,878	456,788	1,328,836	5,739,955	256,256,616
Accumulated depreciation	-	(24,276)	(3,199,750)	(401,844)	(80,166,213)	(93,415,295)	(453,567)	(278,885)	(333,330)	(1,131,843)	(2,890,924)	(182,295,927)
Net book value	1,644,464	53,142	7,023,077	607,340	26,122,490	34,821,405	295,296	223,993	123,458	196,993	2,849,031	73,960,689
<b>Year ended June 30, 2011</b>												
Opening net book value	1,644,464	53,142	7,023,077	607,340	26,122,490	34,821,405	295,296	223,993	123,458	196,993	2,849,031	73,960,689
Additions	233	-	339,793	-	1,878,997	4,937,900	14,451	45,959	6,478	148,035	4,087,738	11,459,584
Disposals												
Cost	-	-	(620)	-	(18,791)	(95,649)	(2,524)	(77)	(2,232)	(52,236)	-	(172,129)
Accumulated depreciation	-	-	252	-	18,791	95,649	2,524	77	2,231	51,628	-	171,152
	-	-	(368)	-	-	-	-	-	(1)	(608)	-	(977)
Depreciation charge for the year	-	(1,277)	(261,294)	(25,213)	(4,177,150)	(6,341,977)	(63,216)	(192,387)	(23,272)	(116,947)	(428,104)	(11,630,837)
Net book value	1,644,697	51,865	7,101,208	582,127	23,824,337	33,417,328	246,531	77,565	106,663	227,473	6,508,665	73,788,459
<b>As at June 30, 2011</b>												
Cost	1,644,697	77,418	10,562,000	1,009,184	108,148,909	133,078,951	760,790	548,760	461,034	1,424,635	9,827,693	267,544,071
Accumulated depreciation	-	(25,553)	(3,460,792)	(427,057)	(84,324,572)	(99,661,623)	(514,259)	(471,195)	(354,371)	(1,197,162)	(3,319,028)	(193,755,612)
Net book value	1,644,697	51,865	7,101,208	582,127	23,824,337	33,417,328	246,531	77,565	106,663	227,473	6,508,665	73,788,459
Annual rate of depreciation (%)		1 to 3.3	2.5	2.5	7	10	10	33.33	10	20	6.67 to 8.33	

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

- 14.2** As explained in note 1, the property and rights vesting in the operating assets, as at January 01, 1996, were transferred to the Company from Pakistan Telecommunication Corporation, under the Pakistan Telecommunication (Re-organization) Act, 1996. However, the title to freehold land, was not formally transferred in the name of the Company in the land revenue records. The Company initiated the process of transfer of title to freehold land, in its own name, in previous years, which is still ongoing and shall be completed in due course of time.
- 14.3** During the current year, the Company revised its estimate of the useful life of computer equipment, from 10 years to 3 years. Had the change in estimate not been made, the depreciation charge for the period would have been lower by Rs 146,450 thousand, whereas the profit for the year would have been higher by the same sum.

**14.4 Disposal of property, plant and equipment:**

The details of the disposals of property, plant and equipment, are as follows:

	Cost	Accumulated depreciation	Net Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rs '000	Rs '000	Rs '000	Rs '000		
Buildings						
IT Building HQ	415	145	270	59	Auction	Mr. Hakam Taj, Islamabad
Telephone exchange building	205	107	98	396	Auction	Mr. Muhammad Sharif, Sukkur
Aggregate of others having net book values not exceeding Rs 50,000	171,509	170,900	609	141,446		
	<u>172,129</u>	<u>171,152</u>	<u>977</u>	<u>141,901</u>		

	Note	2011 Rs '000	2010 Rs '000
<b>14.5 The depreciation charge for the year has been allocated as follows:</b>			
Cost of services	28	11,398,220	11,970,780
Administrative and general expenses	29	174,462	183,226
Selling and marketing expenses	30	58,154	61,076
		<u>11,630,836</u>	<u>12,215,082</u>
<b>14.6 Capital work-in-progress</b>			
Buildings		990,060	471,303
Lines and wires		5,356,202	5,918,700
Apparatus, plant and equipment		8,015,151	4,993,330
Advances to suppliers	14.8	4,070,209	2,826,450
Others		157,195	48,813
		<u>18,588,817</u>	<u>14,258,596</u>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	2011 Rs '000	2010 Rs '000
<b>14.7 Movement during the year</b>		
Balance as at July 01	14,258,596	9,836,588
Additions during the year	15,967,157	12,866,755
Transfers during the year	(11,636,936)	(8,444,747)
Balance as at June 30	<u>18,588,817</u>	<u>14,258,596</u>

Capital work-in-progress includes an amount of Rs. 322,580 thousand (2010: Rs 337,985 thousand), in respect of direct overheads relating to development of assets.

**14.8** This includes an advance of Rs 49,696 thousand (2010: Rs 61,659 thousand) given to Telecom Foundation, a related party.

	Note	Licenses Rs '000	Software Rs '000	Total Rs '000
<b>15. Intangible assets</b>				
As at July 01, 2009				
Cost		4,015,397	397,979	4,413,376
Accumulated amortization		(1,062,749)	(29,957)	(1,092,706)
Net book value		<u>2,952,648</u>	<u>368,022</u>	<u>3,320,670</u>
Year ended June 30, 2010				
Opening net book value		2,952,648	368,022	3,320,670
Amortization		(196,416)	(45,223)	(241,639)
Closing net book value		<u>2,756,232</u>	<u>322,799</u>	<u>3,079,031</u>
As at July 01, 2010				
Cost		4,015,397	397,979	4,413,376
Accumulated amortization		(1,259,165)	(75,180)	(1,334,345)
Net book value		<u>2,756,232</u>	<u>322,799</u>	<u>3,079,031</u>
Year ended June 30, 2011				
Opening net book value		2,756,232	322,799	3,079,031
Additions		–	200,405	200,405
Amortization		(196,415)	(46,894)	(243,309)
Closing net book value		<u>2,559,817</u>	<u>476,310</u>	<u>3,036,127</u>
As at June 30, 2011				
Cost		4,015,397	598,384	4,613,781
Accumulated amortization		(1,455,580)	(122,074)	(1,577,654)
Net book value	15.1	<u>2,559,817</u>	<u>476,310</u>	<u>3,036,127</u>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>15.1 Breakup of net book values as at June 30, is as follows:</b>			
<b>Licenses</b>			
Telecom	15.2	94,747	104,722
WLL spectrum	15.2	2,371,695	2,550,695
WLL and LDI license	15.3	92,880	98,340
IPTV	15.4	495	2,475
		2,559,817	2,756,232
<b>Software</b>			
Bill printing software	15.5	4,374	6,015
Billing and automation of broadband	15.5	26,873	36,085
SAP - Enterprise Resource Planning (ERP) system	15.6	445,063	280,699
		476,310	322,799
		3,036,127	3,079,031
<b>15.2</b>	The Pakistan Telecommunication Authority (PTA) has issued a license to the Company, to provide telecommunication services in Pakistan, for a period of 25 years, commencing January 01, 1996, at an agreed license fee of Rs 249,344 thousand. During the year ended June 30, 2005, PTA modified the previously issued license to provide telecommunication services, to include a spectrum license at an agreed license fee of Rs 3,646,884 thousand. This license allows the Company to provide Wireless Local Loop services in Pakistan, over a period of 20 years, commencing October 2004. The cost of the license is being amortized on a straight line basis over the period of the license.		
<b>15.3</b>	The Pakistan Telecommunication Authority (PTA) has issued a license (under section 5 of the Azad Jammu and Kashmir Council Adaptation of Pakistan Telecommunication (Re-organization) Act, 1996, the Northern Areas Telecommunication (Re-organization) Act, 2005 and the Northern Areas Telecommunication (Re-organization) (Adaptation and Enforcement) Order 2006, to the Company to establish, maintain and operate a telecommunication system in Azad Jammu and Kashmir and Gilgit-Baltistan, for a period of 20 years, commencing May 28, 2008, at an agreed license fee of Rs 109,270 thousand. The cost of the license is being amortized, on a straight line basis, over the period of the license.		
<b>15.4</b>	PTCL acquired the IPTV license from Pakistan Electronic Media Regulatory Authority on October 01, 2006, for an agreed price of Rs 9,900 thousand. The cost of the license is being amortized, on a straight line basis, over a period of 5 years. IPTV license will expire on September 30, 2011.		
<b>15.5</b>	The cost of these softwares is being amortized, on a straight line basis, over a period of 5 years.		
<b>15.6</b>	This represents the cost of the SAP - Enterprise Resource Planning (ERP) system, with a useful life of 10 years, being amortized on a straight line basis.		

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>16. Long-term investments</b>			
Investments in related parties - at cost	16.1	6,523,539	6,598,065
Other investments - at cost	16.3	83,900	83,900
		<u>6,607,439</u>	<u>6,681,965</u>
<b>16.1 Investments in related parties-unquoted</b>			
Wholly owned subsidiaries			
Pak Telecom Mobile Limited 650,000,000 (2010: 650,000,000) ordinary shares of Rs 10 each Ordinary shares held 100% (2010: 100%)		6,500,000	6,500,000
Maskatiya Communications (Pvt) Limited Nil (2010: 440,008) ordinary shares of Rs 100 each Ordinary shares held Nil (2010: 100%)	16.2	—	74,526
Associate			
TF Pipes Limited 1,658,520 (2010: 1,658,520) ordinary shares of Rs 10 each Ordinary shares held 40% (2010: 40%)		23,539	23,539
		<u>6,523,539</u>	<u>6,598,065</u>

## 16.2 Maskatiya Communications (Private) Limited

Maskatiya Communications (Private) Limited (MAXCOM), a 100% owned subsidiary, has been voluntarily wound up, effective June 01, 2011 based on a special resolution passed by the members of MAXCOM. The net assets of MAXCOM have been transferred to PTCL at a book value amounting to Rs 68,382 thousand and the balance amount of the investment of Rs 6,144 thousand has been expensed.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>16.3 Other investments</b>			
Available-for-sale investments - unquoted			
Thuraya Satellite Company 3,670,000 (2010: 3,670,000) ordinary shares of 1 Dirham each		63,900	63,900
Alcatel - Lucent Pakistan Limited 2,000,000 (2010: 2,000,000) ordinary shares of Rs 10 each		20,000	20,000
New ICO Global Communications (Holdings) Limited 218,207 (2010: 218,207) ordinary shares of USD 0.01 per share Less: Impairment		104,708 (104,708)	104,708 (104,708)
		-	-
World Tel Assembly of Governors Participation Fund investment of USD 100,000 (2010: USD 100,000) Less: Impairment		6,390 (6,390)	6,390 (6,390)
		-	-
		83,900	83,900
<b>17. Long-term loans - considered good</b>			
Loans to a wholly owned subsidiary company - unsecured	17.1	11,000,000	7,000,000
Loans to employees - secured	17.2	607,268	509,254
Current portion shown under current assets	20	(125,469)	(172,244)
		481,799	337,010
Others		5,576	200
		11,487,375	7,337,210

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

- 17.1 This represents unsecured loans given to Pak Telecom Mobile Limited (PTML) under subordinated debt agreements, from 2008 to 2010, on the following terms:

	First loan	Second loan	Third loan	Fourth loan
Disbursement Date	November 15, 2008	November 04, 2009	May 18, 2010	July 05, 2010
Loan (Rs '000)	3,000,000	2,000,000	2,000,000	4,000,000
Mark-up Rate	3 months Kibor plus 82 basis points	3 months Kibor plus 82 basis points	3 months Kibor plus 180 basis points	3 months Kibor plus 180 basis points
Grace Period	4 years	4 years	3 years	3 years
Repayment method	Eight equal quarterly installments	Eight equal quarterly installments	Eight equal quarterly installments	Eight equal quarterly installments
Due date of first installment	February 13, 2013	February 04, 2014	August 18, 2013	October 02, 2013

The maximum amount of the loan to PTML, outstanding at any time since the date of the previous statement of financial position, was Rs 11,000,000 (2010: Rs 7,000,000) thousand.

- 17.2 These loans and advances are for house building and purchase of motor cars, motor cycles and bicycles. Loans to gazetted employees of the Company carry interest at the rate of 15% per annum (2010: 15% per annum), whereas, loans to employees other than gazetted employees are interest free. The loans are recoverable in monthly installments spread over a period of 5 to 10 years. These loans are secured against future pension payments of the employees.

This balance also includes a sum of Rs 4,774 thousand (2010: Rs 14,821 thousand), due from employees against the sale of vehicles, recoverable in monthly installments spread over a period of 1 to 2 years.

- 17.3 Reconciliation of carrying amounts of loans to executives and other employees:

	As at July 01, 2010 Rs '000	Disbursements Rs '000	Repayments Rs '000	As at June 30, 2011 Rs '000
Executives	9,545	4,790	2,583	11,752
Other employees	499,709	211,884	116,077	595,516
	<u>509,254</u>	<u>216,674</u>	<u>118,660</u>	<u>607,268</u>
	As at July 01, 2009 Rs '000	Disbursements Rs '000	Repayments Rs '000	As at June 30, 2010 Rs '000
Executives	12,532	23	3,010	9,545
Other employees	443,067	194,244	137,602	499,709
	<u>455,599</u>	<u>194,267</u>	<u>140,612</u>	<u>509,254</u>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>18. Stores, spares and loose tools</b>			
Stores, spares and loose tools		3,896,680	4,704,186
Provision for obsolescence	18.2	(527,192)	(628,323)
		<u>3,369,488</u>	<u>4,075,863</u>
<b>18.1</b>	Stores, spares and loose tools include items which may be capitalized as a part of property, plant and equipment but are not distinguishable.		
<b>18.2 Provision for obsolescence</b>			
Balance as at July 01		628,323	649,591
Provision during the year	28	73,992	102,761
		<u>702,315</u>	<u>752,352</u>
Write-offs against provision		(175,123)	(124,029)
		<u>527,192</u>	<u>628,323</u>
<b>19. Trade debts - unsecured</b>			
Domestic			
Considered good	19.1	7,517,948	7,236,255
Considered doubtful		13,594,288	17,612,764
		<u>21,112,236</u>	<u>24,849,019</u>
International			
Considered good	19.2	1,653,903	2,935,276
Considered doubtful		840,327	953,959
		<u>2,494,230</u>	<u>3,889,235</u>
		<u>23,606,466</u>	<u>28,738,254</u>
Provision for doubtful debts	19.3	(14,434,615)	(18,566,724)
		<u>9,171,851</u>	<u>10,171,530</u>
<b>19.1</b>	These include an amount of Rs 924,074 thousand (2010: Rs 443,808 thousand) due from PTML, a related party.		
<b>19.2</b>	These include amounts due from the following related parties:		
Etisalat - UAE		105,006	419,914
Etisalat - Afghanistan		–	21,685
		<u>105,006</u>	<u>441,599</u>

These amounts are interest free and are accrued in the normal course of business.



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>19.3 Provision for doubtful debts</b>			
Balance as at July 01		18,566,724	18,996,396
Provision for the year	29	1,614,876	1,885,211
Provision transferred from MAXCOM		5,744	–
		<u>20,187,344</u>	<u>20,881,607</u>
Trade debts written-off against provision		(5,752,729)	(2,314,883)
		<u>14,434,615</u>	<u>18,566,724</u>
<b>20. Loans and advances - considered good</b>			
Current portion of long-term loans to employees	17	125,469	172,244
Advances to suppliers and contractors	20.1	460,655	426,787
		<u>586,124</u>	<u>599,031</u>
<b>20.1</b>	These include an advance of Rs 11,887 thousand (2010: Rs 6,841 thousand) given to TF Pipes Limited, a related party accrued in the normal course of business.		
	Note	2011 Rs '000	2010 Rs '000
<b>21. Accrued interest</b>			
Accrued profit on bank placements		167,158	389,038
Mark-up on long-term loans - considered good	21.1	279,082	122,443
Interest receivable on loans to executives		62,623	59,646
		<u>508,863</u>	<u>571,127</u>
<b>21.1</b>	This represents mark-up on loans to PTML, as indicated in note 17.1.		
<b>22. Recoverable from tax authorities</b>			
Income tax		11,207,912	6,063,561
Sales tax		614,056	635,234
Federal Excise Duty		1,217,171	466,176
Provision for doubtful amount		(466,176)	–
		<u>750,995</u>	<u>466,176</u>
		<u>12,572,963</u>	<u>7,164,971</u>
<b>23. Receivable from Government of Pakistan</b>	This represents the balance amount receivable from the Government of Pakistan, on account of its agreed share in the voluntary separation scheme, offered to the Company's employees during the year ended June 30, 2008.		

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000		
<b>24. Other receivables</b>					
Considered good					
Due from related parties:					
- PTML- against service charges for software maintenance		13,522	8,359		
- Etisalat - UAE against secondment of employees		58,297	74,790		
- Pakistan Telecommunication Employees Trust		95,691	86,708		
- PTCL employees' GPF Trust		64,124	286,757		
Others		135,363	331,019		
		366,997	787,633		
Considered doubtful		326,166	185,239		
Provision for doubtful receivables	24.1	(326,166)	(185,239)		
		-	-		
		366,997	787,633		
<b>24.1 Provision for doubtful receivables</b>					
Balance as at July 01		185,239	185,239		
Provision for the year	29	140,927	-		
		326,166	185,239		
<b>25. Short-term investments</b>					
Term deposits - at amortized cost					
- maturity upto 3 months	25.1	2,356,872	13,238,949		
Available-for-sale investments - at fair value					
- units of mutual funds	25.2	285,506	254,916		
		2,642,378	13,493,865		
<b>25.1 Term deposits</b>					
	Term months	Maturity Upto	Profit rate % per annum	2011 Rs '000	2010 Rs '000
Askari Bank Limited	3	August 28, 2011	13.30	2,356,872	-
National Bank of Pakistan				-	2,687,973
Bank Alfalah Limited				-	3,551,458
The Bank of Punjab				-	2,491,873
NIB Bank Limited				-	4,507,645
				2,356,872	13,238,949

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>25.2 Available-for-sale investments - at fair value</b>			
<b>25.2.1 Units of mutual funds</b>			
Units of open-end mutual funds:			
Pakistan Cash Management Fund 2,236,062 (2010: 2,013,768) units		114,411	102,059
NAFA Government Securities Liquid Fund 5,563,826 (2010: 5,011,856) units		57,638	51,493
BMA Empress Cash Fund 2,733,117 (2010: 2,416,129) units		28,844	25,691
Faysal Saving Growth Fund 546,288 (2010: 489,285) units		56,262	50,455
Askari Sovereign Cash Fund 281,564 (2010: 232,801) units		28,351	25,218
		285,506	254,916
<b>25.2.2 Movement in available-for-sale investments during the year:</b>			
Balance as at July 01		254,916	–
Additions during the year		–	504,916
Sold during the year		–	(254,916)
Gain on sale of units of open-ended mutual funds transferred to income	31	–	4,916
Unrealized gain transferred to other comprehensive income		30,590	–
		285,506	254,916
<b>26. Cash and bank balances</b>			
Cash in hand		226	33
Balances with banks:			
Deposit accounts	26.1	5,893,448	4,796,454
Current accounts			
Local currency		1,453,073	1,331,971
Foreign currency (USD 3,287 thousand (2010: USD 3,430 thousand))		282,160	293,686
		1,735,233	1,625,657
		7,628,907	6,422,144

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

- 26.1 The balances in deposit accounts, carry mark-up ranging between 5% and 13.30% (2010: 5% to 13%) per annum.
- 26.2 Deposit accounts include Rs 3,691,898 thousand (2010: Rs 3,682,831 thousand) under lien of bank, against letter of guarantees and letter of credits issued on behalf of the Company.

	Note	2011 Rs '000	2010 Rs '000
<b>27. Revenue</b>			
Domestic	27.1	49,951,388	50,080,664
International	27.2	5,302,626	7,093,863
		<u>55,254,014</u>	<u>57,174,527</u>

- 27.1 Revenue is exclusive of Federal Excise Duty amounting to Rs 5,957,830 thousand (2010: Rs 6,703,713 thousand).
- 27.2 International revenue represents revenue from foreign network operators, for calls that originate outside Pakistan, and has been shown net of interconnect costs relating to other operators and Access Promotion Charges, aggregating to Rs 11,241,321 thousand (2010: Rs 11,261,154 thousand).

	Note	2011 Rs '000	2010 Rs '000
<b>28. Cost of services</b>			
Salaries, allowances and other benefits	28.1	11,008,434	8,827,775
Call centre charges		303,815	199,061
Interconnect costs		2,742,012	3,166,881
Foreign operators costs and satellite charges		7,820,618	6,473,865
Fuel and power	28.2	3,398,492	3,380,201
Communication		7,980	9,522
Stores, spares and loose tools consumed		1,432,599	1,012,453
Provision for obsolete stores, spares and loose tools	18.2	73,992	102,761
Rent, rates and taxes		826,553	636,143
Repairs and maintenance		2,006,296	1,802,417
Printing and stationery		320,109	281,432
Travelling and conveyance		9,828	12,653
Depreciation on property, plant and equipment	14.5	11,398,220	11,970,780
Amortization of intangible assets	15	243,309	241,639
Annual license fee to PTA		222,508	243,889
		<u>41,814,765</u>	<u>38,361,472</u>

- 28.1 This includes Rs 2,626,984 thousand (2010: Rs 1,576,511 thousand) in respect of employees' retirement benefits.
- 28.2 This includes Rs 466,176 thousand (2010: Nil) in respect of provision against recoverable from tax authorities on account of Federal Excise Duty.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>29. Administrative and general expenses</b>			
Salaries, allowances and other benefits	29.1	1,121,649	899,225
Call centre charges		45,572	29,859
Fuel and power		255,790	254,415
Rent, rates and taxes		258,780	291,478
Repairs and maintenance		11,739	10,545
Printing and stationery		4,942	4,345
Travelling and conveyance		78,623	101,221
Technical services assistance fee	29.2	1,764,098	1,821,556
Legal and professional charges		195,342	143,262
Auditors' remuneration	29.3	12,425	10,500
Depreciation on property, plant and equipment	14.5	174,462	183,226
Research and development	29.4	220,230	321,921
Provisions:			
- against doubtful debts	19.3	1,614,876	1,885,211
- against doubtful receivables	24.1	140,927	-
Donations	29.5	46,575	280
Loss on transfer of assets from MAXCOM		6,144	-
Other expenses		1,423,782	1,163,975
		<b>7,375,956</b>	<b>7,121,019</b>

**29.1** This includes Rs 268,383 thousand (2010: Rs 161,062 thousand) in respect of employees' retirement benefits.

**29.2** This represents PTCL's share of the amount payable to Etisalat - UAE, a related party, under a technical services agreement between the Company and Etisalat, for a period of five years, commencing October 01, 2006. The fee is charged at the rate of 3.5%, of the PTCL group's consolidated annual revenue.

	Note	2011 Rs '000	2010 Rs '000
<b>29.3 Auditors' remuneration</b>			
A. F. Ferguson & Co.			
Statutory audit, including half yearly review		4,500	4,500
Tax services		1,000	1,000
Out of pocket expenses		250	250
Ernst & Young Ford Rhodes Sidat Hyder			
Statutory audit, including half yearly review		4,500	4,500
Tax services		1,925	-
Out of pocket expenses		250	250
		<b>12,425</b>	<b>10,500</b>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

**29.4** This represents the Company's contribution to the Information Communication Technology (ICT), Research and Development Fund, at the rate of 0.5% (2010: 1% and 0.5%) of its gross revenues less inter-operator payments and payments toward research and development activities in Pakistan, in accordance with the terms and conditions of its license to provide telecommunication services.

**29.5** There were no donations during the year in which the directors, or their spouses, had any interest.

	Note	2011 Rs '000	2010 Rs '000
<b>30. Selling and marketing expenses</b>			
Salaries, allowances and other benefits	30.1	1,100,844	882,986
Call centre charges		30,381	19,906
Sales and distribution charges		447,244	316,878
Fuel and power		75,521	75,116
Printing and stationery		3,300	2,901
Travelling and conveyance		9,828	12,653
Advertisement and publicity		556,213	770,808
Depreciation on property, plant and equipment	14.5	58,154	61,076
		<u>2,281,485</u>	<u>2,142,324</u>

**30.1** This includes Rs 262,067 thousand (2010: Rs 157,273 thousand) in respect of employees' retirement benefits.

	Note	2011 Rs '000	2010 Rs '000
<b>31. Other operating income</b>			
Income from financial assets:			
Return on bank placements		1,734,105	3,087,442
Interest on long-term loans	31.1	1,575,318	610,105
Late payment surcharge from subscribers on overdue bills		181,749	162,465
Dividend		36,000	22,000
Gain on sale of units of open-ended mutual funds	25.2.2	–	4,916
Exchange gain - net		8,985	–
Income from non-financial assets:			
Dividend from a subsidiary - PTML		3,144,000	673,239
Gain on disposal of items of property, plant and equipment		140,924	137,155
Gain on sale of obsolete stores		63,264	45,238
Old liabilities written back		527,760	151,638
Secondment income from Etisalat		75,545	85,351
Amortization of deferred government grants		78,804	–
Others		273,163	155,097
		<u>7,839,617</u>	<u>5,134,646</u>

**31.1** This includes a sum of Rs 1,566,957 thousand (2010: Rs 603,257 thousand) accrued on the loans given to PTML.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>32. Finance costs</b>			
Bank and other charges		200,895	223,123
Exchange loss - net		–	25,262
Imputed interest related to WLL license fee		–	151,529
Acquisition of MAXCOM		6,624	3,326
		<u>207,519</u>	<u>403,240</u>
<b>33. Taxation</b>			
Current			
- for the year		1,401,084	4,628,465
- for prior year		522,691	(212,269)
		<u>1,923,775</u>	<u>4,416,196</u>
Deferred	8	2,061,961	570,770
		<u>3,985,736</u>	<u>4,986,966</u>

## 33.1 Tax charge reconciliation

The numerical reconciliation between the average effective tax rate and the applicable tax rate is as follows:

	2011 %	2010 %
Applicable tax rate	35.00	35.00
Tax effect of amounts chargeable to tax at lower rates	(4.66)	(1.22)
Effect of change in prior year's tax	4.58	–
Tax effect of amounts that are not deductible for tax purposes and others	–	1.14
	<u>(0.08)</u>	<u>(0.08)</u>
Average effective tax rate charged to the statement of comprehensive income	<u>34.92</u>	<u>34.92</u>

		2011	2010
<b>34. Earnings per share - basic and diluted</b>			
Profit for the year	Rupees in thousand	7,428,170	9,294,152
Weighted average number of ordinary shares	Numbers in thousand	5,100,000	5,100,000
Earnings per share	Rupees	<u>1.46</u>	<u>1.82</u>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 35. Non-funded finance facilities

The Company has non-funded financing facilities available with banks, which include facilities to avail letters of credit and letters of guarantee. The aggregate facility of Rs 18,125,000 thousand (2010: Rs 18,100,000 thousand) and Rs 5,000,000 thousand (2010: Rs 4,000,000 thousand) is available for letters of credit and letters of guarantee respectively, out of which the facility availed at the year end is Rs 7,350,770 thousand (2010: Rs 8,249,727 thousand). The letter of credit facility is secured by a hypothecation charge over certain assets of the Company, amounting to Rs 11,650,333 thousand (2010: Rs 32,633,000 thousand).

## 36. Cash generated from operations

	2011 Rs '000	2010 Rs '000
<b>Profit before tax</b>	11,413,906	14,281,118
<b>Adjustments for non-cash charges and other items:</b>		
Depreciation and amortization	11,874,146	12,456,721
Provision for doubtful trade debts	1,755,803	1,885,211
Employees' retirement benefits	3,157,433	1,894,846
Imputed interest on payment to PTA against WLL license fee	–	151,529
Imputed interest on consideration payable on MAXCOM	6,624	3,326
Interest on long-term loans	(1,566,957)	(610,105)
Gain on disposal of property, plant and equipment	(140,924)	(137,155)
Unrealized gain on available-for-sale investments	30,590	–
Dividend	(3,180,000)	(695,239)
Return on bank placements	(1,734,105)	(3,087,442)
Gain on sale of units of open-end mutual funds	–	(4,916)
Provision for obsolete stores, spares and loose tools	73,992	102,761
Amortization of USF grants	(78,804)	–
Loss on transfer of assets of MAXCOM	6,144	–
Liabilities written back	(527,760)	(151,638)
Finance costs	200,895	248,385
	<u>21,290,983</u>	<u>26,337,402</u>
<b>Effect on cash flows due to working capital changes:</b>		
(Increase) / decrease in current assets:		
Stores, spares and loose tools	632,383	1,023,367
Trade debts	(779,341)	(1,295,767)
Loans and advances	(33,868)	39,853
Recoverable from tax authorities	(263,641)	(41,802)
Other receivables	415,260	(89,363)
	(29,207)	(363,712)
<b>Increase / (decrease) in current liabilities:</b>		
Trade and other payables	237,944	(1,074,512)
	<u>21,499,720</u>	<u>24,899,178</u>



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	Note	2011 Rs '000	2010 Rs '000
<b>37. Cash and cash equivalents</b>			
Short-term investments	25	2,642,378	13,493,865
Cash and bank balances	26	7,628,907	6,422,144
		<u>10,271,285</u>	<u>19,916,009</u>

## 38. Capacity

	Access Lines Installed (ALI)		Access Lines In Service (ALIS)	
	2011	2010	2011	2010
	(Number)			
Number of lines	10,191,128	9,590,972	4,486,935	4,477,821

ALI represent switching lines. ALI include 238,600 (2010: 232,786) and ALIS include 93,654 (2010: 107,477) Primary Rate Interface (PRI) and Basic Rate Interface (BRI) respectively. ALI and ALIS also include 3,764,600 (2010: 3,055,930) and 1,549,915 (2010: 1,236,932) WLL connections, respectively.

The difference between ALI and ALIS is due to pending and potential future demand.

## 39. Remuneration of Directors, Chief Executive and Executives

The aggregate amount charged in the financial statements for remuneration, including all benefits, to the Chairman, Chief Executive and Executives of the Company is as follows:

	Chairman		Chief Executive		Executives	
	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000	2011 Rs '000	2010 Rs '000
Managerial remuneration	–	–	96,021	78,074	587,196	555,866
Honorarium	300	300	–	–	2,051	2,965
Bonus	–	–	–	–	8,197	6,148
Retirement benefits	–	–	–	–	55,297	50,270
Housing	–	–	–	–	203,632	183,489
Utilities	–	–	–	–	49,699	40,486
	<u>300</u>	<u>300</u>	<u>96,021</u>	<u>78,074</u>	<u>906,072</u>	<u>839,224</u>
Number of persons	1	1	1	1	492	453

The Company also provides free medical and limited residential telephone facilities, to all its Executives, including the Chief Executive. The Chairman is entitled to free transport and a limited residential telephone facility, whereas, the Directors of the Company are provided only with limited telephone facilities; certain executives are also provided with Company maintained cars.

The aggregate amount charged in the financial statements for the year as fee paid to 9 directors (2010: 9 directors), is Rs 7,885 thousand (2010: Rs 11,682 thousand) for attending the Board of Directors, and its sub-committee, meetings.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

## 40. Rates of exchange

Assets in foreign currencies have been translated into Rupees at USD 1.1648 (2010: USD 1.1709) equal to Rs 100, while liabilities in foreign currencies have been translated into Rupees at USD 1.1648 (2010: USD 1.1682) equal to Rs 100.

## 41. Financial risk management

### 41.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board has prepared a 'Risk Management Policy' covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of this policy.

#### (a) Market risk

##### (i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions, or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD), Swiss Franc (CHF) and Australian Dollar (AUD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to foreign entities. The Company's exposure to currency risk is as follows:

	2011 Rs '000	2010 Rs '000
<b>USD</b>		
Trade and other payables	(4,557,353)	(3,590,376)
Trade debts	2,494,230	4,042,311
Cash and bank balances	282,160	293,608
Net exposure	<u>(1,780,963)</u>	<u>745,543</u>
<b>CHF</b>		
Trade and other payables	<u>(7,395)</u>	<u>(5,660)</u>
<b>AUD</b>		
Loans and advances	<u>2,337</u>	<u>1,850</u>

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

The following significant exchange rates were applied during the year:

	2011	2010
<b>Rupees per USD</b>		
Average rate	85.46	83.92
Reporting date rate	85.85	85.60
<b>Rupees per CHF</b>		
Average rate	90.41	79.07
Reporting date rate	103.35	79.10
<b>Rupees per AUD</b>		
Average rate	84.95	74.00
Reporting date rate	92.19	72.96

If the functional currency, at reporting date, had fluctuated by 5% against the USD, CHF and AUD with all other variables held constant, the impact on profit after taxation for the year would have been Rs 58,045 thousand (2010: Rs 24,106 thousand) respectively lower/ higher, mainly as a result of exchange gains/ losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

**(ii) Other price risk**

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is exposed to equity securities price risk, because of the investments held by the Company in money market mutual funds, and classified on the statement of financial position as available-for-sale. To manage its price risk arising from investments in mutual funds, the Company diversifies its portfolio.

The other financial assets include available-for-sale investments of Rs 285,506 thousand (2010: Rs 254,916 thousand) which were subject to price risk.

If redemption price on mutual funds, at the year end date, fluctuate by 5% higher / lower with all other variables held constant, total comprehensive income for the year would have been Rs 14,275 thousand (2010: Rs Nil) higher / lower, mainly as a result of higher / lower redemption price on units of mutual funds.

**(iii) Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

At the date of the statement of financial position, the interest rate profile of the Company's interest bearing financial instruments is:

	2011 Rs '000	2010 Rs '000
<b>Financial assets</b>		
Fixed rate instruments:		
Staff loans	607,268	509,254
Short-term investments - term deposits	2,356,872	13,238,949
Floating rate instruments:		
Long-term loans - loan to subsidiary	11,000,000	7,000,000
Bank balances - deposit accounts	5,893,448	4,796,454
	19,857,588	25,544,657

#### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value. Therefore, a change in interest rates at the date of the statement of financial position would not affect the total comprehensive income of the Company.

#### Cash flow sensitivity analysis for variable rate instruments

If interest rates on long-term loans to subsidiary and deposit bank balances, at the year end date, fluctuate by 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs 124,610 thousand (2010: Rs 64,797 thousand) higher / lower, mainly as a result of higher / lower markup income on floating rate loans/investments.

#### (b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge an obligation. The maximum exposure to credit risk at the reporting date is as follows:

	2011 Rs '000	2010 Rs '000
Long-term investments	83,900	83,900
Long-term loans	11,487,375	7,337,210
Trade debts	9,171,851	10,171,530
Loans and advances	125,469	172,244
Accrued interest	508,863	571,127
Receivable from Government of Pakistan	2,164,072	2,164,072
Other receivables	366,997	787,633
Short-term investments	2,642,378	13,493,865
Bank balances	7,628,681	6,422,111
	34,179,586	41,203,692

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

The credit risk on liquid funds is limited, because the counter parties are banks with reasonably high credit ratings. In case of trade debts the Company believes that it is not exposed to major concentrations of credit risk, as its exposure is spread over a large number of counter parties and subscribers. Long-term loans include a loan of Rs 11,000,000 thousand to a subsidiary-PTML.

The credit quality of cash and bank balances and short-term-investments, that are neither past due nor impaired, can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating		Rating Agency	2011	2010
	Short term	Long term		Rs '000	Rs '000
National Bank of Pakistan	A-1+	AAA	JCR-VIS	3,960,627	3,940,843
Bank Alfalah Limited	A1+	AA	PACRA	1,641,487	3,171,623
MCB Bank Limited	A1+	AA+	PACRA	29,020	38,003
Soneri Bank Limited	A1+	AA-	PACRA	22,554	-
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	4,966	38,425
The Bank of Punjab	A1+	AA-	PACRA	177,474	5,644,946
NIB Bank Limited	A1+	AA-	PACRA	79,872	4,507,112
Faysal Bank Limited	A1+	AA	JCR-VIS	-	1,164
Habib Bank Limited	A1+	AA+	JCR-VIS	-	-
Askari Bank Limited	A1+	AA	PACRA	3,432,092	101,425
Allied Bank Limited	A1+	AA	PACRA	159,985	136,991
United Bank Limited	A1+	AA+	JCR-VIS	4,924	-
KASB Bank Limited	A2	A-	PACRA	228	-
Mybank Limited	A2	A-	PACRA	-	-
Tameer Micro Finance Bank	A-1	A	JCR-VIS	141	-
Bank Al-Habib Limited	A1+	AA+	PACRA	167,569	101,521
Summit Bank Limited	A-2	A	JCR-VIS	3,537	-
Dubai Islamic Bank	A-1	A	JCR-VIS	59,252	479,337
Citibank, N.A	A-1	A+	S&P's	148,889	1,050,827
HSBC Bank	P-1	A1	Moody's	1,416	-
Silkbank Limited *	A-2	A-	JCR-VIS	5,857	7,705
SME Bank Limited	A-3	BBB	JCR-VIS	645	22,448
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	33,574	418,677
Meezan Bank Limited	A-1	AA-	JCR-VIS	51,444	13
Mutual Fund -Arif Habib	AM 2	N/A	PACRA	114,411	102,059
Mutual Fund -NAFA	AM 2 -	N/A	PACRA	57,638	51,493
Mutual Fund -BMA	AM 2 -	N/A	JCR	28,844	25,691
Mutual Fund -Faysal	AM 2 -	N/A	JCR	56,262	50,455
Mutual Fund -Askari	AM3	N/A	PACRA	28,351	25,218
				10,271,059	19,915,976

# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

Due to the Company's long standing business relationships with these counterparties, and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

\*The bank has been placed on the watchlist by the State Bank of Pakistan and the most recent rating was carried out in February 2011.

## (c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company follows an effective cash management and planning policy to ensure availability of funds, and to take appropriate measures for new requirements.

The following are the contractual maturities of financial liabilities as at June 30, 2011:

	Carrying amount Rs '000	Less than one year Rs '000	One to five years Rs '000	More than five years Rs '000
Long-term security deposits	740,744	–	740,744	–
Employees' retirement benefits	16,823,015	–	–	16,823,015
Trade and other payables	21,501,269	21,501,269	–	–
Dividend payable	3,375,631	3,375,631	–	–
	<u>42,440,659</u>	<u>24,876,900</u>	<u>740,744</u>	<u>16,823,015</u>

The following are the contractual maturities of financial liabilities as at June 30, 2010:

	Carrying amount Rs '000	Less than one year Rs '000	One to five years Rs '000	More than five years Rs '000
Long-term security deposits	720,964	–	720,964	–
Employees' retirement benefits	15,512,803	–	–	15,512,803
Trade and other payables	21,128,744	21,128,744	–	–
Payable to PTA against WLL license fee	1,894,950	1,894,950	–	–
Dividend payable	3,375,631	3,375,631	–	–
	<u>42,633,092</u>	<u>26,399,325</u>	<u>720,964</u>	<u>15,512,803</u>

## 41.2 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements, approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

(ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

For working capital and capital expenditure requirements, the Company primarily relies on internal cash generation and does not have any significant borrowings.

## 42. Transactions with related parties

The Company's related parties comprise its subsidiaries, associated undertakings, employees' retirement benefit plans and key management personnel. Amounts due from / (to) related parties, are shown under receivables and payables. Remuneration of key management personnel is disclosed in note 39. Additionally, the Company had transactions with the following related parties during the year:

### Subsidiary

Pak Telecom Mobile Limited

### Associated undertakings

TF Pipes Limited  
Emirates Telecommunication Corporation  
Etisalat International Pakistan  
Etisalat - Afghanistan

### Employees' retirement benefit plans

Pakistan Telecommunication Employees' Trust  
PTCL Employees' GPF Trust  
Telecom Foundation

Transactions between the Company and its related parties, other than those which have been disclosed elsewhere in these financial statements, are:

	2011 Rs '000	2010 Rs '000
<b>Subsidiaries</b>		
PTML		
Sale of goods and services	5,410,401	5,138,960
Purchase of goods and services	1,973,658	1,604,145
Disbursement of loan	4,000,000	4,000,000
Mark-up on long-term loans	1,567,735	603,257
Equity contribution	-	1,000,000
Consideration paid against adjustment of tax loses of PTML	-	1,198,943



# Notes to and Forming Part of the Financial Statements

For the year ended June 30, 2011

	2011 Rs '000	2010 Rs '000
Associates		
Sale of goods and services	1,642,856	5,651,506
Purchase of goods and services	1,214,637	1,707,042
Dividend paid	2,088,450	4,176,900

## 43. Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure:

Reclassification from component	Reclassification to component	Rs '000
Administrative and general expenses	Cost of services	102,761

## 44. Date of authorization for issue

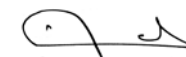
These financial statements were authorized for issue on September 07, 2011 by the Board of Directors of the Company.

## 45. General

Figures have been rounded off to the nearest thousand rupees, unless otherwise specified.



Chairman



President & CEO