

Financial Statements

Pakistan Telecommunication Company Limited



Auditors' Report to the Members

We have audited the annexed balance sheet of Pakistan Telecommunication Company Limited as at June 30, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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 balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of 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 balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2007 and of the profit, 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

Lahore
September 15, 2007

KMPG Taseer Hadi & Co.
Chartered Accountants

Balance Sheet as at June 30, 2007

	Note	June 30, 2007 (Rupees in thousand)	June 30, 2006
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
11,100,000,000 "A" class ordinary shares of Rs 10 each		111,000,000	111,000,000
3,900,000,000 "B" class ordinary shares of Rs 10 each		39,000,000	39,000,000
		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up capital	5	51,000,000	51,000,000
Insurance reserve	6	1,749,047	1,492,414
General reserves		30,500,000	30,500,000
Unappropriated profit		27,664,217	22,483,050
		110,913,264	105,475,464
NON CURRENT LIABILITIES			
Suppliers' credit	7	–	170,873
Payable to PTA against WLL license fee	8	1,601,222	–
Deferred taxation	9	2,373,223	1,937,322
Employees' retirement benefits	10	12,289,626	11,624,935
Long term security deposits from customers – non interest bearing	11	1,195,784	2,755,896
		17,459,855	16,489,026
CURRENT LIABILITIES			
Trade and other payables	12	19,258,578	17,557,092
Interest and mark-up accrued	13	1,380	12,323
Short term borrowings	14	2,145,948	3,763,303
Current portion of Suppliers' credit	7	171,581	429,830
Taxation		2,870,254	2,725,984
Dividend payable		–	5,787,000
		24,447,741	30,275,532
CONTINGENCIES AND COMMITMENTS			
	15	<u>152,820,860</u>	<u>152,240,022</u>

The annexed notes from 1 to 40 form an integral part of these financial statements.


Chairman



	Note	June 30, 2007 (Rupees in thousand)	June 30, 2006
NON CURRENT ASSETS			
Property, plant and equipment	16	76,191,881	75,937,780
Capital work-in-progress	17	10,609,483	13,104,320
Intangible assets	18	3,230,742	4,048,876
Long term investments	19	7,411,776	7,118,002
Long term loans	20	1,174,140	1,862,867
		98,618,022	102,071,845
CURRENT ASSETS			
Stores and spares	21	3,879,206	3,435,679
Trade debts	22	11,411,412	17,862,049
Current portion of loans to subsidiaries	20	400,000	500,000
Loans, advances, deposits, prepayments and other receivables	23	5,228,560	5,771,664
Cash and bank balances	24	33,283,660	22,598,785
		54,202,838	50,168,177
		<u>152,820,860</u>	<u>152,240,022</u>

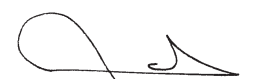
President & CEO

Profit and Loss Account for the year ended June 30, 2007

	Note	June 30, 2007 (Rupees in thousand)	June 30, 2006
Revenue	25	65,277,025	69,085,436
Operating costs	26	(46,564,338)	(41,687,918)
Operating profit		18,712,687	27,397,518
Non-operating income	27	5,541,203	3,912,931
Finance cost	28	(510,175)	(336,401)
Profit before taxation		23,743,715	30,974,048
Taxation	29	(8,104,962)	(10,196,618)
Profit after taxation		15,638,753	20,777,430
Earnings per share - basic and diluted (Rupees)	35	3.07	4.07

The annexed notes from 1 to 40 form an integral part of these financial statements.


Chairman


President & CEO

Cash Flow Statement for the year ended June 30, 2007

	Note	June 30, 2007 (Rupees in thousand)	June 30, 2006
Cash flows from operating activities			
Cash generated from operations	32	43,995,391	44,823,855
Long term security deposits		(359,309)	402,947
Employee retirement benefits		(177,179)	(1,709,418)
Finance cost paid		(393,640)	(367,538)
Income tax paid		(7,524,791)	(7,957,631)
Net cash from operating activities		35,540,472	35,192,215
Cash flows from investing activities			
Fixed capital expenditure		(10,109,953)	(17,529,722)
Intangible assets		(9,900)	–
Long term investments		(696,568)	(743,604)
Long term loan to subsidiary		–	(150,000)
Repayment of loan from subsidiary		500,000	500,000
Long term loans-net		152,070	17,306
Return on deposits		2,879,417	1,584,976
Dividend income		402,073	710,493
Sale proceeds from disposal of property, plant and equipment		35,636	57,330
Net cash used in investing activities		(6,847,225)	(15,553,221)
Cash flows from financing activities			
Repayment of suppliers' credit		(429,122)	(445,651)
Dividend paid		(15,961,895)	(9,681,862)
Net cash used in financing activities		(16,391,017)	(10,127,513)
Net increase/(decrease) in cash and cash equivalents		12,302,230	9,511,481
Cash and cash equivalents at the beginning of the year		18,835,482	9,324,001
Cash and cash equivalents at the end of the year	33	<u>31,137,712</u>	<u>18,835,482</u>

The annexed notes from 1 to 40 form an integral part of these financial statements.



Chairman



President & CEO

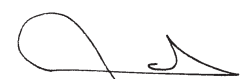
Statement of Changes in Equity for the year ended June 30, 2007

(Rupees in thousand)

	Share capital		Revenue reserves			Total
	Class "A"	Class "B"	Insurance Reserve	General reserve	Unappropriated profit	
Balance as at June 30, 2005	37,740,000	13,260,000	1,508,411	30,500,000	17,005,620	100,014,031
Net profit for the year	-	-	-	-	20,777,430	20,777,430
Reserve utilized during the year	-	-	(15,997)	-	-	(15,997)
Interim dividend for the year ended June 30, 2006 @ Rs 3 per share	-	-	-	-	(15,300,000)	(15,300,000)
Balance as at June 30, 2006	37,740,000	13,260,000	1,492,414	30,500,000	22,483,050	105,475,464
Net profit for the year	-	-	-	-	15,638,753	15,638,753
Transfer to insurance reserve	-	-	257,586	-	(257,586)	-
Reserve utilized during the year	-	-	(953)	-	-	(953)
Final dividend for the year ended June 30, 2006 @ Rs 2 per share	-	-	-	-	(10,200,000)	(10,200,000)
Balance as at June 30, 2007	37,740,000	13,260,000	1,749,047	30,500,000	27,664,217	110,913,264

The annexed notes from 1 to 40 form an integral part of these financial statements.


Chairman


President & CEO

Notes to the Financial Statements for the year ended June 30, 2007

1. Legal status and nature of business

1.1 Constitution and ownership

Pakistan Telecommunication Company Limited (PTCL) was incorporated in Pakistan on December 31, 1995 and is listed on Karachi, Lahore and Islamabad stock exchanges. It was established to undertake the telecommunication business formerly carried on by Pakistan Telecommunication Corporation (PTC). The business was transferred to the company on January 1, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996 at which date PTCL took over all the properties, rights, assets, obligations and liabilities of PTC except those transferred to National Telecommunication Corporation (NTC), Frequency Allocation Board (FAB), Pakistan Telecommunication Authority (PTA) and Pakistan Telecommunication Employees Trust (PTET). The company commenced business on January 1, 1996. The registered office of the company is situated at Block-E, PTCL Headquarters, G-8/4, Islamabad.

1.2 Activities

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 except Azad Jammu and Kashmir and Northern areas.

2. Statement of compliance

2.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, interpretations and amendments to published approved accounting standards

2.2.1 Amendments to published standards effective in 2006

IAS 19 (Amendment) – Employee Benefits, is mandatory for the company's accounting periods beginning on or after July 01, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. The company does not intend to adopt the alternative approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 10.1 to the financial statements.

2.2.2 Standards, amendments and interpretations effective in 2006 but not relevant

Other new standards, amendments and interpretations that are mandatory for the company's accounting periods beginning on or after July 1, 2006 are considered not to be relevant or have any significant effect to the company's operations.

2.2.3 Standards or interpretations not yet effective but relevant

Certain amendments to IAS 1 'Presentation of Financial Statements' – Capital Disclosures have been published that are applicable to the company's accounting periods beginning on or after July 01, 2007. Adoption of these amendments would impact the nature and extent of disclosures made in the future financial statements of the company.

3. Basis of preparation

These financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value, and recognition of certain employee retirement benefits and license fee payable at present value.

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

Notes to the Financial Statements for the year ended June 30, 2007

a)	Retirement benefit obligation	– (note 4.4)
b)	Provision for taxation	– (note 4.3)
c)	Useful life and residual values of property, plant and equipment	– (note 4.6)
d)	Provision for doubtful debts	– (note 4.10)

4. 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 presented unless otherwise stated.

4.1 Insurance reserve

The assets of the company are self insured. The company commenced an endowment fund in the year 1999-2000 and deposited funds in a separate bank account which was closed in the year 2005. The reserve is to be utilized to meet any loss resulting from theft, fire or natural disasters.

4.2 Borrowings

Borrowings are recorded at the proceeds received. Finance cost is accounted for on an accrual basis and is either added to the carrying amount of the instrument or disclosed as interest and markup accrued to the extent of amount remaining unpaid.

4.3 Taxation

Provision for current tax is based on the taxable income for the period determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period if enacted. The charge for current tax also includes adjustments where considered necessary to provision for tax made in previous years arising from assessments framed during the period for such years.

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised 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 tax 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 balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.4 Employee retirement benefits and other obligations

(a) Pension obligations

The company operates an approved funded pension scheme through a separate trust called the "Pakistan Telecommunication Employees' Trust" (PTET) for its employees recruited prior to January 1, 1996 when the company took over the business from PTC.

The company also operates an unfunded pension scheme for employees recruited after December 31, 1995.

Provisions are made annually to cover the obligations under the schemes on the basis of actuarial valuations and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in the balance sheet represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost and as reduced by the fair value of the plan assets.

Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the greater of the present value of the company's pension obligations and the fair value of plan assets are amortised over the expected average working lives of the participating employees.



The principal actuarial assumptions used in the valuation as at June 30, 2007 were as follows:

Expected rate of return per annum on plan assets	9%
Discount rate	10%
Indexation of pension	6%
Expected mortality rate	EFU 61 – 66 mortality table adjusted for company's experience
Expected withdrawal rate	Based on experience

The expected rate of return is based on market expectation, at the beginning of the period, for returns over the entire life of the related obligation. It considers the expected returns on the re-investments of maturity proceedings in similar instruments upto the life of related obligations. The expected rate of return also considers the changes of plan assets during the year on account of contributions and benefit payments. The model results in expected rate of return of 9.4%. The rounded expected rate of return used for the Fund Assets is 9.0% during 2006-07.

(b) Medical benefits

The company provides post retirement medical benefits to employees and their families. Under the unfunded scheme all such employees, their spouses, children upto the age of 21 and parents residing with and dependent on the employee are entitled to the benefit. Unmarried daughters are not subject to 21 years age limit. The pensioner and the family are entitled to the facility upto the life of the pensioner and spouse. There are no annual limits to the cost of drugs, hospital in patient treatment and consultation fees.

Provisions are made annually to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in the balance sheet represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost.

Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the present value of the company's obligations are amortised over a period of thirteen years.

The principal assumptions used in the valuation as at June 30, 2007 were as follows:

Discount rate	10%
Expected rate of increase in medical costs	9%
Expected mortality rate	EFU 61-66 mortality table adjusted for company's experience

(c) Accumulating compensated absences

The company provides a facility to its employees for accumulating their annual earned leave. Under the unfunded scheme employees are entitled to four days of earned leave per month. Unutilised leave can be accumulated without limit and can be used at any time subject to the company's approval upto 120 days in a year without medical certificate, 180 days with medical certificate and 365 days during the entire service of the employee. Upto 180 days of accumulated leave can be encashed on retirement provided the employee has a minimum leave balance of 365 days.

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in the balance sheet represents the present value of the defined benefit obligations.

Actuarial gains and losses are charged to profit immediately in the period when these occur.

Notes to the Financial Statements for the year ended June 30, 2007

The principal assumptions used in the valuation as at June 30, 2007 were as follows:

Expected increase in salary	9%
Discount rate	10%
Expected mortality rate	EFU 61-66 mortality table adjusted for company's experience

(d) Provident fund

The company operates approved funded provident fund covering permanent employees. For the purposes of the scheme a separate trust titled as "PTCL Employees GPF Trust" has been established. Monthly contributions are deducted from the salaries of employees and are to be paid to the Trust by the company. Interest is paid at the rate announced by the Federal Government. Such rate for the year was 11% per annum (2006:10.5%) per annum. The company contributes to the fund the differential, if any, of the interest charge for the year and the income earned on the investments made by the Trust. The contributions deducted from the employees during the year and interest payable by the company for the year, if any, appear as other liabilities.

(e) Gratuity

The company operates an approved unfunded gratuity scheme for its contractual employees. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuations and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in balance sheet represents the present value of the defined benefit obligation as on June 30, 2007 as adjusted for unrecognised actuarial gains and losses.

Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the present value of the company obligations are amortised over the expected average working lives of the participating employees.

The principal assumptions used in the valuation as at June 30, 2007 were as follows:

Discount rate	10% per annum
Expected increase in salaries	9% per annum
Average expected remaining working lifetime of contractual employees	6 years

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.5 Trade and other payables

These are stated at their nominal value. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the instrument.

4.6 Fixed capital expenditure and depreciation/amortisation

Property, plant and equipment, except freehold land are stated at cost less accumulated depreciation/amortisation and any identified impairment loss. Freehold land and capital work in progress are stated at cost less any identified impairment loss. Cost includes direct cost, related overheads, mark up and interest referred to in note 4.18.

Depreciation/amortisation on property, plant and equipment is charged to profit using the straight line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given in note 16. Depreciation on additions is charged from the month the asset is available for use while no depreciation is charged in the month in which the asset is disposed off. Impairment loss or its reversal, if any, is also charged to profit. Where an impairment loss is recognised, the depreciation charge is adjusted in future periods to allocate the assets' revised carrying amount over their estimated useful life.

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.



The company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful life.

Major renewals and improvements are capitalized. Minor repairs and renewals are charged to profit. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.7 Intangible assets

These are stated at cost less accumulated amortisation and any identified impairment loss and are amortized on a straight line basis over the period of the license.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortisation is charged for the month in which the asset is disposed off. Impairment loss or its reversal, if any, is also charged to income. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.8 Long term investments

4.8.1 Investments in equity instruments of subsidiaries and associated companies

These are initially measured at cost. At subsequent reporting dates, the company reviews the carrying amount of the investment to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognised as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of the initial cost of the investment. A reversal of the impairment loss is recognised as income.

4.8.2 Other investments

The management determines the appropriate classification of its investments in accordance with the requirement of International Accounting Standard 39; Financial Instruments: Recognition and Measurement (IAS 39) at the time of purchase of investment and re-evaluates this classification on a regular basis. The existing investment portfolio of the company has been categorized as available for sale.

4.8.3 Available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates these investments are measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which the quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

Financial assets classified as available for sale are recognized initially at fair value and any unrealized gains and losses arising from changes in fair value are directly recognized in equity in the period in which they arise.

All purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

Notes to the Financial Statements for the year ended June 30, 2007

At each reporting date, the company reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. A reversal of the impairment loss is recognized in income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

4.9 Stores and spares

Usable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

4.10 Trade debts

Trade debts are stated at their nominal value as reduced by appropriate provision for debts considered to be doubtful. Bad debts are written off when identified.

4.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value.

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, demand deposits and short term borrowings.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. In the balance sheet, short term borrowings are included in current liabilities.

4.12 Provisions

Provisions are recorded when the company has a present obligation as a result of a past event and it is probable that it will result in an outflow of economic benefits for which a reliable estimate can be made of the amount of the obligation.

4.13 Financial assets and liabilities

Financial assets and financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument and derecognized when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include long term investments, long term loans, trade debts, loans, advances, deposits and other receivables, cash and bank balances, suppliers' credit, long term security deposits from customers, trade and other payables, interest and accrued markup and short term borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.14 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

4.15 Derivative financial instruments

These are initially recorded at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates.



4.16 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Rupees at the spot rate. All non-monetary items are translated into Rupees at exchange rates prevailing on the date of transactions or on the date when fair values are determined. Any component of an exchange gain or loss relating to a recognised change in the fair value of non-monetary assets is charged to profit. All exchange differences are included in profit currently.

4.17 Revenue recognition

Revenue from telecommunication services is recognised when services have been rendered.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income and return from investments are recognised when the company's right to receive payment has been established.

4.18 Borrowing costs

Mark-up, interest and other charges on suppliers' credit and other borrowings are capitalized upto the date of commissioning of the respective qualifying asset, acquired out of the proceeds of such suppliers' credit and other borrowings. All other mark-up, interest and other charges are charged to profit.

4.19 Dividend

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are approved.

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
5. Issued, subscribed and paid up capital			
3,774,000,000 (2006: 3,774,000,000) "A" class ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	– note 5.1	37,740,000	37,740,000
1,326,000,000 (2006: 1,326,000,000) "B" class ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	– note 5.1	13,260,000	13,260,000
		<u>51,000,000</u>	<u>51,000,000</u>

5.1 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 (Reorganization) Act, 1996 as referred to in note 1.1.

5.2 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 can not 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 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 (Reorganization) Act, 1996 or at any time within three years from April 12, 2006, if there is any change of control of any member holding "B" class ordinary shares without the prior written approval of Government of Pakistan, the "B" class ordinary shares shall be automatically converted into "A" class ordinary shares.

Notes to the Financial Statements for the year ended June 30, 2007

5.3 The Government of Pakistan through an offer for Sale Document, dated July 30, 1994 issued to domestic investors a first tranche of vouchers exchangeable for "A" class ordinary shares of the company and through an Information Memorandum dated September 16, 1994 issued a second tranche of vouchers to the international investors also exchangeable, at the option of voucher holder 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 general public. Till June 30, 2007, 599,432 thousand "A" ordinary shares had been exchanged for vouchers.

5.4 In pursuance of the privatization of the company, a bid was held by the Government of Pakistan on June 8, 2005 for sale of "B" class ordinary shares of Rs 10 each along with management control. Emirates Telecommunication Corporation-(Etisalat) was the successful bidder. The 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.

	June 30, 2007 (Rupees in thousand)	June 30, 2006
6. Insurance reserve		
Balance at the beginning of the year	1,492,414	1,508,411
Transferred from unappropriated profit	257,586	–
Utilized during the year	(953)	(15,997)
Balance at the end of the year	<u>1,749,047</u>	<u>1,492,414</u>
7. Suppliers' credit – secured		
Suppliers' credit – secured	171,581	600,703
Less: Current portion shown under current liabilities	(171,581)	(429,830)
	<u>–</u>	<u>170,873</u>

7.1 These comprise:

	Currency	Currency balance		Rupee equivalent	
		June 30, 2007 (Amounts in thousand)	June 30, 2006	June 30, 2007 (Amounts in thousand)	June 30, 2006
1. Ssangyong Corporation	US \$	284	854	17,262	51,573
2. Wan Bao, China	US \$	2,289	6,870	138,769	414,591
3. Societe Generale Libano Europeanne De Banque Sal	US \$	255	770	15,550	46,455
4. Ssangyong Corporation	US \$	–	398	–	24,035
5. Samsung Corporation	US \$	–	855	–	51,516
6. Raychem N.V.	US \$	–	208	–	12,533
				<u>171,581</u>	<u>600,703</u>

Balance of borrowing 1 is repayable in one half yearly installment. Interest is payable half yearly at 7.8% per annum. Any amount which remains unpaid after due date bears interest at 2% per annum above contractual rate. In addition the lender is to be reimbursed any costs or losses resulting from the company's default. In case of default, the lender can give a notice in which case the entire outstanding principal and all or any accrued interest amount become immediately due and payable.

Balance of borrowing 2 is repayable in one half-yearly installment. Interest is payable half-yearly at 2% per annum.

Balance of borrowing 3 is repayable in one half yearly installment. Interest is payable half yearly at 10% per annum. Additional interest is payable on overdue installment(s) after due date at 3% per annum. In case of default, the lender can give a notice in which case the entire outstanding principal and all or any accrued interest amount become immediately due and payable.

Borrowings 4, 5 and 6 were repaid during the year.

In 2000-2001 the company was instructed by the Economic Affairs Division (EAD) Government of Pakistan to commence repayment in respect of borrowings 1, 4, 5 & 6 in a Special Rupee Account of the State Bank of Pakistan which was to be considered as settlement of the Company's liability towards its lender as per arrangements formalized between the respective lenders and the Government of Pakistan. During the year the company deposited Rs 131,302 thousand (2006: Rs 164,068 thousand) in respect of repayment of principal and interest on these borrowings in Special Rupee Account with the State Bank of Pakistan.

Repayments for borrowings 2 and 3 are to be made directly to the lenders in respective currencies at the prevailing rates on due date.

The amount of suppliers credit committed but not utilized at June 30, 2007 was US \$ 167 thousand (2006: US \$ 167 thousand) in respect of borrowing 3.

Security

Borrowing 2 is secured by deferred payment letters of credit in favor of respective lender. All other borrowings are secured by guarantees from commercial banks, which guarantees are secured by the first charge by way of hypothecation on company's present and future moveable assets including stores and spares and receivables both domestic and international.

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
8.	Payable to PTA against WLL license fee		
	Payable to PTA against WLL license fee	2,105,500	–
	Less: Present value adjustment	(631,756)	–
	Present value of license fee payable	1,473,744	–
	Imputed interest charged to profit and loss	127,478	–
		<u>1,601,222</u>	<u>–</u>

- 8.1** In previous years the company had paid to PTA Rs 4,278,639 thousand in respect of license to provide Wireless Local Loop (WLL) services. During the year PTA has allowed the company to adjust Rs 2,105,500 thousand out of Rs 4,278,639 thousand already paid against the amount payable to Universal Service Fund (USF). The balance amount of Rs 2,105,500 thousand in respect of license fee is now payable to PTA in March 2010 and carries no interest. The license fee payable has been discounted to present value of future cash flows using effective interest rate of 10% per annum and the corresponding adjustment has been made to the cost of license included in intangible assets. Difference between the amount payable and the present value of cash equivalent is being recognized as imputed interest over the remaining credit period.

Notes to the Financial Statements for the year ended June 30, 2007

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
9. Deferred taxation			
	These comprise timing differences due to:		
	Accelerated tax depreciation	7,503,263	5,357,815
	Provision for doubtful debts	(5,068,960)	(3,414,626)
	Provision for doubtful advances and receivables	(64,509)	(9,296)
	Others	3,429	3,429
		<u>2,373,223</u>	<u>1,937,322</u>
10. Employees' retirement benefits			
	These comprise:		
	Liabilities for pension obligations		
	Funded	454,071	454,071
	Unfunded	1,018,773	783,087
		1,472,844	1,237,158
	Gratuity	177,618	125,267
	Accumulating compensated absences	1,871,553	1,735,238
	Post retirement medical facility	8,767,611	8,527,272
		<u>12,289,626</u>	<u>11,624,935</u>

10.1 Employees' retirement benefits

	Pension		Gratuity	Accumulating compensated absences	Post retirement medical facility	Total
	Funded	Unfunded				
	(Rupees in thousand)					
Present value of defined benefit obligations – note 10.2	36,529,541	1,180,770	111,444	1,871,553	4,798,947	44,492,255
Fair value of assets – note 10.5	(45,158,318)	–	–	–	–	(45,158,318)
	(8,628,777)	1,180,770	111,444	1,871,553	4,798,947	(666,063)
Unrecognised actuarial gains/(losses)	9,082,848	(161,997)	66,174	–	3,968,664	12,955,689
Liability at the end of the year	<u>454,071</u>	<u>1,018,773</u>	<u>177,618</u>	<u>1,871,553</u>	<u>8,767,611</u>	<u>12,289,626</u>
Liability at beginning of the year	454,071	783,087	125,267	1,735,238	8,527,272	11,624,935
Charge for the year – note 26.1	39,566	236,514	61,305	193,080	311,405	841,870
Contributions	(39,566)	–	–	–	–	(39,566)
Benefits paid during the year	–	(828)	(8,954)	(56,765)	(71,066)	(137,613)
Liability at the end of the year	<u>454,071</u>	<u>1,018,773</u>	<u>177,618</u>	<u>1,871,553</u>	<u>8,767,611</u>	<u>12,289,626</u>

10.2 Changes in the present value of the defined benefit obligations

	Pension Funded		Pension Unfunded		Gratuity		Accumulating compensated absences		Post retirement medical facility	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(Rupees in thousand)									
Opening balance	31,413,488	28,134,077	1,050,561	805,823	136,265	38,128	1,735,238	2,972,819	4,583,853	4,723,962
Current service cost - note 26.1	1,144,259	1,170,035	132,940	124,954	49,041	91,456	15,161	31,590	147,789	178,460
Interest cost - note 26.1	2,827,214	2,532,067	94,551	72,524	12,264	3,432	156,171	267,554	412,547	425,157
Benefits paid	(1,437,017)	(1,026,028)	(828)	(721)	(8,954)	(6,840)	(56,765)	(1,300,788)	(71,066)	(70,319)
Actuarial (gains)/losses	2,581,597	603,337	(96,454)	47,981	(77,172)	10,089	21,748	(235,937)	(274,176)	(673,407)
Closing balance	36,529,541	31,413,488	1,180,770	1,050,561	111,444	136,265	1,871,553	1,735,238	4,798,947	4,583,853

10.3 Historical Information

	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
	(Rupees in thousand)				
Defined benefit pension plan - funded					
Present value of defined benefit obligations at year end	36,529,541	31,413,488	28,134,077	23,570,575	21,869,410
Fair value of plan assets at year end	45,158,318	39,243,528	34,241,407	30,251,086	26,576,399
Surplus in the Plan	8,628,777	7,830,040	6,107,330	6,680,511	4,706,989
Experience adjustment on plan liabilities (gains)/losses	2,581,597	603,337	2,538,991	151,643	*
Experience adjustment on plan assets gains/(losses)	3,776,675	2,611,253	2,339,398	2,115,118	*
Defined benefit pension plan - unfunded					
Present value of defined benefit obligations at year end	1,180,770	1,050,561	805,823	519,617	418,342
Experience adjustment on pension liabilities (gains)/losses	(96,454)	47,981	156,338	*	*
Defined benefit gratuity plan					
Present value of defined benefit obligations at year end	111,444	136,265	38,128	26,888	*
Experience adjustment on gratuity liability (gains)/losses	(77,172)	10,089	909	*	*
Accumulating compensated absences					
Present value of defined benefit obligations at year end	1,871,553	1,735,238	2,972,819	1,612,415	1,416,365
Experience adjustment on accumulating compensated absences liability (gains)/losses	21,748	(235,937)	(91,581)	*	*
Defined benefit post retirement medical facility					
Present value of defined benefit obligations at year end	4,798,947	4,583,853	4,723,962	5,099,000	2,679,714
Experience adjustment on post retirement medical liability (gains)/losses	(274,176)	(673,407)	(890)	*	*

* It is impracticable to determine the amounts of experience adjustments during the year.

Notes to the Financial Statements for the year ended June 30, 2007

10.4 Major categories of plan assets of defined benefit pension plan-funded as percentage of total plan assets are as follows

	June 30, 2007	June 30, 2006
	(Percentage)	
Defence saving certificates	77%	62%
Term finance and other certificates	11%	9%
Pakistan Investment Bonds	11%	18%
Fixed & other assets	1%	11%

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
10.5 Changes in the fair value of plan assets		
Opening balance	39,243,528	34,241,407
Expected return on plan assets	3,531,918	3,081,726
Contributions made by the company during the year	39,566	330,750
Contributions made by the employees – deputationists	3,648	4,420
Benefits paid	(1,437,017)	(1,026,028)
Actuarial gain/(loss) on plan assets	3,776,675	2,611,253
Closing balance	<u>45,158,318</u>	<u>39,243,528</u>
Actual return on plan assets	7,308,593	5,692,980

10.6 Effect of increase/decrease in medical cost trend rate

Effect of 1 % increase in medical cost trend rate in current service cost and interest cost is Rs 50,248 thousand and effect of 1% decrease is Rs 41,381 thousand.

Effect of 1 % increase in medical cost trend rate in present value of defined benefit obligations for medical cost is Rs 1,631,641 thousand and effect of 1% decrease is Rs 1,343,705 thousand.

10.7 In the next financial year the return on plan assets is expected to be higher than pension obligation by an amount of Rs 55,114 thousand.

11. Long term security deposits from customers – non interest bearing

Uptil 1997 the company while providing a new telephone connection to a fixed line subscriber obtained a deposit against the telephone set provided to the subscriber. Such deposit being claimable by the subscriber on return of the telephone set in working condition. During the year the company has written back such deposits amounting to Rs 499,125 thousand as based on the past experience it considers that the likelihood of a subscriber claiming refund of deposit by returning the set in working condition is remote.



	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
12. Trade and other payables		
Trade creditors	4,037,106	2,864,246
Accrued and other liabilities	2,053,782	2,209,786
Deposits payable on demand – interest free	567,728	840,084
Due to subsidiary-Pak Telecom Mobile Limited	–	489,067
Taxes payable		
Income tax collected from subscribers	289,423	331,277
Income tax deducted at source	37,089	34,280
	326,512	365,557
Sales tax payable	883,346	1,236,754
Advance from customers	1,313,343	1,131,807
Technical services fee payable to related party – note 26.5	414,648	–
Retention money payable to contractors / suppliers	6,758,669	5,077,045
Payable to Research and Development Fund – note 26.7	1,331,233	726,844
Payable to Universal Service Fund – note 8.1	1,354,591	2,363,384
Payable to Pakistan Telecommunication Authority	15,212	15,212
Due to Special Communication Organization	31,801	16,782
Due to satellite companies	51,999	127,021
Unclaimed dividend	118,608	93,503
	<u>19,258,578</u>	<u>17,557,092</u>

12.1 Trade creditors and accrued and other liabilities principally comprise amounts outstanding for trade purchases and on going costs.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
13. Interest and mark-up accrued		
Interest, mark-up and other charges accrued on Suppliers' credit – secured	1,380	12,323

14. Short term borrowings

14.1 This represents temporary overdrafts, which are to be repaid by the company immediately upon the payments made by the banks and carry no markup.

15. Contingencies and commitments

Commitments

15.1 Commitments in respect of contracts for capital expenditure amount to Rs 17,604,276 thousand (2006: Rs 17,128,049 thousand).

Contingencies

15.2 2,171 cases (2006: 2,477 cases) have been filed against the company primarily by subscribers and employees. Because of the number of cases involved and their uncertain nature, it is not possible to quantify their financial effect at present. However, in the management's view the outcome of these cases is expected to be favorable and a liability, if any, arising on the settlement of these cases is not likely to be material.

Notes to the Financial Statements for the year ended June 30, 2007

15.3 In previous years the income tax authorities served show cause notices under section 52 and section 86 of the repealed Income Tax Ordinance 1979 for the assessment years 1996-97 to 1998-1999 on failure to withhold/deduct tax under section 50(3) while making payments to non resident satellite companies. The company filed a writ petition before Lahore High Court against the said notices which was dismissed. An appeal was filed against the dismissal before Honorable Supreme Court of Pakistan which was also dismissed and the company was advised by the Honorable Court to file an appeal before the Income Tax appellate authorities. Subsequently, the company filed an appeal with the Commissioner Income Tax (CIT) Appeals who has annulled the order of the taxation officer. The department has filed an appeal with the Income Tax Appellate Tribunal (ITAT) against the order of CIT (Appeals).

Pending outcome of the appeal, no provision has been made in these accounts for the demands aggregating Rs 1,599,557 thousand (2006: Rs 1,599,557 thousand) since in the management's view, the outcome of the appeal is expected to be favorable.

15.4 International telephone represents revenue from foreign network operators for calls that originate outside Pakistan. Based on foreign operator accounts received upto June 30, 2007, the company's records reflect an additional 112,560 thousand (2006: 92,270 thousand) minutes in respect of such calls as compared to the information received from foreign operators. The matter is being pursued by the company with the foreign operators. Pending resolution of the matter with the foreign operators, revenue if any, which may be due to the company in respect of the additional minutes, can not be estimated and as such has not been recognised as revenue.

15.5 In 1995 the Government of Pakistan, 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 to the Government of Pakistan seeking restoration of its services and claimed damages from the Government amounting to Rs 2,261,924 thousand. The Government of Pakistan ordered for immediate restoration of Pay Card services including rebate relief and discount to all pay phone service providers. In view of relief and discount offered by the Government, 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 Honorable Court, external consultants calculated 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. The Honorable Court has yet to announce its judgement which was reserved in the last hearing of the case. The company has also filed a claim against Telecard Limited for an amount of Rs 324,683 thousand receivable up to December 31, 2001 and Rs 9,416 thousand rebate refund claim.

In another identical case to the above matter M/s Telefon has claimed Rs 97,337 thousand from the company. In the last hearing held on May 9, 2006 issues have been framed and evidence will be recorded in the next hearing. Pending outcome of the case, it is not possible at this stage to quantify the liability, if any.

15.6 M/s Televoice has filed a suit with Honorable Sindh High Court for arbitration claiming Rs 409,125 thousand for breach of interconnect agreement by the company. A counter claim for Rs 120,000 thousand has been lodged by the company in the same court. The arbitrator announced an award of Rs. 115,000 thousand in favor of PTCL for which execution has been filed by the Company with the court.

15.7 Consequent to an audit of central excise duty collected by the company from subscribers for the years 1998-99 and 1999-2000 the Rawalpindi Collectorate of Central Excise Department raised a demand for excise duty alongwith additional duties and penalties amounting to Rs 2,043,268 thousand. The matter was taken up by the company with the Central Board of Revenue (CBR), Government of Pakistan for resolution. A committee was formed comprising representatives from the company and CBR. As a result of the negotiations, the company deposited an amount of Rs 466,176 thousand on account of central excise duty.

It was agreed that the company would retain the right to contest the additional duties and penalties at all appellate forums and in the event of favorable decision the amount would be refunded to the company by Collectorate of Central Excise. The company has filed an appeal to contest the additional duties and penalties levied by the Collectorate. Pending final outcome of the reference, no provision has been made in these accounts for the above demand, since in the management's view the outcome of the appeal is expected to be favorable.

15.8 The Employees' Old-Age Benefits Institute (EOBI) served a demand notice on the company under section 12(3) of Employees' Old Age Benefits (EOBI) Act, 1976 for payment of company's and employees contribution amounting to Rs 1,496,829 thousand for the period January 1, 1996 to May 31, 2005. The management, based on legal opinion, is of the view that the amount is not payable and has filed a writ petition before Honorable High Court which is pending for hearing.

15.9 The company has given guarantee to bank on behalf of its subsidiary, Paknet Limited for financing of Rs 150,000 thousand (2006: Rs 150,000 thousand) .

16. Property, plant and equipment

16.1 The following is a statement of property, plant and equipment:

		(Rupees in thousand)						
	Cost as at July 1, 2006	Additions/ (deletions)	Cost as at June 30, 2007	Accumulated depreciation as at July 1, 2006	Depreciation for the year/ (on disposals)	Accumulated depreciation as at June 30, 2007	Net book value as at June 30, 2007	Annual rate of depreciation %
Land								
– Freehold	1,625,907	15,898	1,641,805	–	–	–	1,641,805	–
– Leasehold	72,057	2,057	74,114	19,743	1,125	20,868	53,246	1 – 3.3
Buildings on								
– Freehold land	9,148,611	420,118	9,568,729	2,232,997	230,472	2,463,469	7,105,260	2.5
– Leasehold land	1,009,184	–	1,009,184	298,923	27,236	326,159	683,025	2.5
Lines and wires	95,145,624	3,559,357	98,704,981	60,797,332	5,493,801	66,291,133	32,413,848	7
Apparatus, plant and equipment	100,713,654	8,222,870 (692,304)	108,244,220	69,176,950	6,361,829 (688,892)	74,849,887	33,394,333	10
Office equipment	805,159	78,712	883,871	348,026	82,376	430,402	453,469	10
Furniture and fittings	381,089	13,743	394,832	247,305	25,938	273,243	121,589	10
Vehicles	1,333,113	291,082 (33,289)	1,590,906	1,175,342	122,851 (32,593)	1,265,600	325,306	20
June 30, 2007	210,234,398	12,603,837 (725,593)	222,112,642	134,296,618	12,345,628 (721,485)	145,920,761	76,191,881	
June 30, 2006	195,366,133	15,049,369 (181,104)	210,234,398	122,810,739	11,655,477 (169,598)	134,296,618	75,937,780	

16.2 As explained in note 1.1 the property and rights in the above assets at January 1, 1996 were transferred to the company from Pakistan Telecommunication Corporation under the Pakistan Telecommunication (Reorganization) Act, 1996. However, the title to such 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 of land in its name in previous year which is still ongoing and shall be completed in due course of time.

16.3 Disposal of property, plant and equipment

Details of certain property, plant and equipment disposed off during the year are as follows:

Particulars of the assets / sold to	Mode of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds
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(Rupees in thousand)

Apparatus and Plant EMD Exchange

Mr Abdul Hameed	Tender	4,471	2,012	2,459	318
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The remaining property, plant and equipment disposed off during the year had a book value of less than Rs 50,000.

Notes to the Financial Statements for the year ended June 30, 2007

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
17. Capital work-in-progress			
This consists of:			
Buildings		219,725	466,474
Lines and wires		4,880,823	5,037,598
Apparatus, plant and equipment		5,508,935	7,600,248
		<u>10,609,483</u>	<u>13,104,320</u>
18. Intangible assets			
Cost	– note 18.1	3,906,127	4,527,983
Less: Accumulated amortisation	– note 18.2	(675,385)	(479,107)
		<u>3,230,742</u>	<u>4,048,876</u>
18.1 Cost			
Balance as at July 1, 2006		4,527,983	4,527,983
Add: Additions during the year		9,900	–
Less: Present value adjustment of WLL license fee payable to PTA	– note 8	(631,756)	–
Balance as at June 30, 2007		<u>3,906,127</u>	<u>4,527,983</u>
18.2 Accumulated amortisation			
Balance as at July 1, 2006		479,107	255,201
Add: Amortization for the year		196,278	223,906
Balance as at June 30, 2007		<u>675,385</u>	<u>479,107</u>
18.3	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 1, 1996 for an agreed license fee of Rs 249,344 thousand. In the year ended June 30, 2005, PTA modified the previously issued license to provide telecommunication services to include spectrum license at an agreed license fee of Rs 4,278,639 thousand. This license allowed the company to provide the Wireless Local Loop services in Pakistan over a period of 20 years commencing October 2004. The cost of the license is being amortised on straight line basis over the period of the license.		
18.4	PTCL acquired the IPTV license from PEMRA on October 1, 2006 for the agreed price of Rs. 9,900 thousand. The cost of license is being amortized on straight line basis over the period of 5 years.		



	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
19. Long term investments		
Related parties – at cost		
Subsidiaries – unquoted		
Pak Telecom Mobile Limited		
350,000,000 (2006: 350,000,000) ordinary shares of Rs 10 each		
Ordinary shares held 100% (2006: 100%)	3,500,000	3,500,000
Paknet Limited		
20,000,000 (2006: 20,000,000) ordinary shares of Rs 10 each		
Ordinary shares held 100% (2006: 100%)	200,000	200,000
Less: Impairment provision	(200,000)	(200,000)
	–	–
Associated – unquoted		
Telecom Foundation Pipes Limited		
1,658,520 (2006: 1,658,520) ordinary shares of Rs 10 each		
Ordinary shares held 40% (2006: 40%)	23,539	23,539
	3,523,539	3,523,539
Other investments		
Available for sale – Unquoted		
New ICO Global Communications (Holdings) Limited		
218,207 (2006: 218,207) shares of US \$ 0.01 per share – note 19.1	–	–
(Chief Executive; Mr. Bryan)		
Alcatel Pakistan Limited		
2,000,000 (2006: 2,000,000) ordinary shares of Rs 10 each	20,000	20,000
(Chief Executive; Mr. Taylor)		
World Tel Assembly of Governors		
Participation Fund Investment of US \$ 100,000 (2006: US \$ 100,000)	6,390	6,390
Less: Impairment provision	(2,711)	(2,711)
	3,679	3,679
Thuraya Satellite Company		
3,670,000 (2006: 3,670,000) ordinary shares of 1 Dirham each	63,900	63,900
(Chief Executive; Mr. Yousuf Al Syed)		
(SEA-ME-WE-3) Submarine Cable System		
SEA-ME-WE-3 Cost US \$ 60,386 thousand (2006: US \$ 51,986 thousand)		
Participating percentage 2.932786% (2006: 2.932786%) – note 19.2	3,743,255	3,232,343
Less: Amortization	(1,446,191)	(1,159,058)
	2,297,064	2,073,285
(SEA-ME-WE-4) Submarine Cable System		
SEA-ME-WE-4 Cost US \$ 29,274 thousand (2006: US \$ 26,277 thousand)		
Participating percentage 6.1210% (2006: 6.1210%). – note 19.3	1,721,655	1,535,999
Less: Amortization	(218,061)	(102,400)
	1,503,594	1,433,599
	7,411,776	7,118,002

Notes to the Financial Statements for the year ended June 30, 2007

- 19.1 New ICO Global Communications (Holdings) Limited acquired the assets of ICO Global Communications (Holdings) Limited, established in January 1995 to provide global mobile personal communication services by satellite. ICO Global Communications (Holdings) Limited was suspended from trading when the company filed for Chapter 11 protection on August 27, 1999. The business was renamed New ICO Global Communications (Holdings) Limited following its emergence from Chapter 11 protection on May 16, 2000. According to the reorganization plan, the shareholders of ICO Global Communications (Holdings) Limited received one class A ordinary shares of US \$ 0.01 in New ICO Global Communications (Holdings) Limited for every 103.8 shares and an option to exchange one warrant of US \$ 90 for exchange with 13.84 shares at any time on or after May 16, 2000 (the effective date) on which the reorganization plan becomes effective until 5 p.m. New York City time, on May 17, 2006, which was extended by the company upto August 3, 2006. The company did not exercise the option before expiry.
- 19.2 The company is a member of a consortium for provision and maintenance of an optical fiber cable network linkup of South-East-Asia, Middle-East and Western-Europe. This represents the company's proportion of the aggregate cost incurred by the consortium on the network to June 30, 2007. The initial and any subsequent investment is being amortized over the useful life of the network which is estimated to be 15 years.
- 19.3 The company is a member of a consortium for provision of additional capacity for international communication to supplement the existing SEA-ME-WE-3 submarine cable. This represents the company's proportion of the aggregate cost incurred by the consortium on the network to June 30, 2007. The initial and any subsequent investment is being amortized over the useful life of the network which is estimated to be 15 years.

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
20. Long term loans – considered good			
Loans to subsidiaries:			
PTML – unsecured	– note 20.1	400,000	900,000
Paknet Limited-unsecured	– note 20.2	150,000	150,000
		550,000	1,050,000
Less: Current portion shown under current assets		(400,000)	(500,000)
		150,000	550,000
Less: Provision for doubtful loan – Paknet Limited		(150,000)	–
		–	550,000
Loans to employees	– note 20.3	1,584,515	1,736,585
Less: Current portion shown under current assets		(410,375)	(423,718)
		1,174,140	1,312,867
		<u>1,174,140</u>	<u>1,862,867</u>

- 20.1 This represents long term loan given to Pak Telecom Mobile Limited (PTML), a subsidiary of the company in two installments of Rs 600,000 thousand and Rs 900,000 thousand repayable in six half yearly installments each commencing June 2005 and December 2005 respectively. The maximum aggregate amount outstanding at the end of any month during the year was Rs 900,000 thousand (2006: Rs 1,400,000 thousand). The loan carries mark up at the rate of 3 years Pakistan Investment Bonds rate minus 0.5%. The effective rate of mark up during the year was 3.74 % (2006: 3.74%) per annum.
- 20.2 The loan is repayable in six equal semi-annual installments commencing from the 24th month after the date of disbursement. It carries a mark-up @ KIBOR plus 0.5%. The principal and interest are subordinate in payment to the short term running finance availed by Paknet Limited from National Bank of Pakistan. During the year the company has provided against the loan considering its recovery as doubtful.
- 20.3 These loans and advances are for house building and purchase of motor cars, motor cycles and cycles. Loans to gazetted employees of the company, carry interest at the rate of 11% per annum (2006: 10.5% per annum), whereas, loans to other employees are interest free. The loans are recoverable in monthly installments spread over 5 to 10 years. These loans are secured against future pension payments of employees.



	June 30, 2007 (Rupees in thousand)	June 30, 2006
21. Stores and spares		
Stores and spares	4,293,609	3,700,505
Less: Provision for obsolescence	(414,403)	(264,826)
	<u>3,879,206</u>	<u>3,435,679</u>

21.1 These are under a first charge by way of hypothecation as security for certain borrowings referred to in note 7.1.

21.2 Stores and spares include items which may result in property, plant and equipment but are not distinguishable.

	June 30, 2007 (Rupees in thousand)	June 30, 2006
22. Trade debts		
Domestic		
Considered good-unsecured	9,826,876	15,443,178
Considered doubtful	13,242,932	8,127,506
	23,069,808	23,570,684
International		
Considered good-unsecured	1,584,536	2,418,871
Considered doubtful	409,704	2,255,039
	1,994,240	4,673,910
	<u>25,064,048</u>	<u>28,244,594</u>
Less: Provision for doubtful debts	(13,652,636)	(10,382,545)
	<u>11,411,412</u>	<u>17,862,049</u>

22.1 The above debts have been provided as security by first charge by way of hypothecation for certain borrowings referred to in note 7.1.

22.2 Debts written off during the year against provision amount to Rs 3,036,722 thousand (2006: Rs 700,988 thousand).

22.3 Included in trade debts – domestic are amounts due from Pak Telecom Mobile Limited amounting to Rs 296,450 (2006: Rs NIL). This amount is interest free and accrued in the normal course of business.

22.4 Included in trade debts – international are amounts due from Etisalat – UAE, a related party, aggregating Rs 184,009 thousand (2006: Rs 308,614 thousand). This amount is interest free and accrued in the normal course of business.

Notes to the Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
23. Loans, advances, deposits, prepayments and other receivables		
Current portion of loans to employees – considered good – note 20	410,375	423,718
Advances to subsidiaries – considered good – Paknet Limited – note 23.1	49,702	47,240
Advances to suppliers and contractors – considered good	804,193	1,353,006
Due from Pakistan Telecommunication Employees Trust	569,880	584,252
Due from PTCL employees' GPF Trust	639,320	192,036
Due from Government of Pakistan against disposal of CTI / TIP	152,391	652,391
Interest receivable on loan to subsidiaries:		
– considered good	21,599	28,726
– considered doubtful	7,751	–
	29,350	28,726
Accrued profit on bank deposits	576,628	489,846
Recoverable from tax authorities		
Central excise – note 15.7	466,176	466,176
Sales tax	731,716	672,731
Margin against Letter of Credit	148,216	163,831
Other receivables:		
– considered good	658,364	697,711
– considered doubtful	26,559	26,559
	684,923	724,270
	5,262,870	5,798,223
Less: Provision for doubtful receivables	(34,310)	(26,559)
	5,228,560	5,771,664
23.1 These relate to normal business of the company and are interest free.		
	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
24. Cash and bank balances		
The balances were held:		
At banks		
– on deposit accounts	32,285,162	21,783,957
– on current accounts including US \$ 6,649 thousand (2006: US \$ 1,016 thousand)	993,586	787,874
In hand	4,912	26,954
	33,283,660	22,598,785
24.1 During the year the balances in deposit accounts earned mark up ranging from 1.5% to 13.2% per annum.		
	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
25. Revenue		
Domestic	59,601,058	63,164,414
International	9,989,508	9,520,017
	69,590,566	72,684,431
Less: trade discount	(4,313,541)	(3,598,995)
	65,277,025	69,085,436

25.1 Revenue is exclusive of excise duty amounting to Rs 7,951,768 thousand (2006: Rs 8,519,150 thousand) and interconnect amount relating to other operators aggregating to Rs 7,362,877 thousand (2006: Rs 11,190,567 thousand).

25.2 International revenue represents revenue from foreign network operators for calls that originate outside Pakistan.

		June 30, 2007	June 30, 2006
(Rupees in thousand)			
26. Operating costs			
Salaries, allowances and other benefits	– note 26.1	14,025,930	14,700,167
Foreign operators cost and satellite charges		2,386,648	2,585,393
Fuel and power		2,197,480	2,092,655
Communication		101,726	117,391
Stores and spares consumed	– note 26.2	2,271,693	3,331,506
Rent, rates and taxes	– note 26.3	886,025	1,431,019
Repairs and maintenance		1,093,734	1,099,558
Printing and stationery		209,312	198,740
Travelling and conveyance		107,379	151,884
Advertisement and publicity		258,406	455,684
Legal and professional services	– note 26.4	143,979	146,811
Technical services fee	– note 26.5	1,498,116	–
Depreciation and amortization	– note 26.6	12,944,724	12,212,148
Annual license fee to PTA		359,495	418,933
Bad debts written off		533,597	–
Research and development	– note 26.7	616,559	726,844
Provision for impairment of investment		–	202,711
Provision for long term loan due from subsidiary	– note 20.2	150,000	–
Provision for obsolete stores		303,257	–
Provision for doubtful debts	– note 26.8	6,292,835	1,574,946
Provision for interest receivable from subsidiary – considered doubtful		7,751	–
Donations		–	49,069
Other expenses		1,175,925	1,257,049
		<u>47,564,571</u>	<u>42,752,508</u>
Less: Cost allocated to fixed capital expenditure		<u>(1,000,233)</u>	<u>(1,064,590)</u>
		<u>46,564,338</u>	<u>41,687,918</u>

26.1 Included in salaries, allowances and other benefits are the following in respect of employee retirement benefits for the year:

	(Rupees in thousand)						
	Pension		Gratuity	Accumulating compensated absences	Post retirement medical facility	Total	
	Funded	Unfunded				June 30, 2007	June 30, 2006
Current service cost	1,144,259	132,940	49,041	15,161	147,789	1,489,190	1,596,495
Interest cost	2,827,214	94,551	12,264	156,171	412,547	3,502,747	3,300,735
Contributions from deputationists	(3,648)	–	–	–	–	(3,648)	(4,420)
Expected return on plan assets	(3,531,918)	–	–	–	–	(3,531,918)	(3,081,727)
Actuarial (gain)/loss	(396,341)	9,023	–	21,748	(248,931)	(614,501)	(728,172)
	<u>39,566</u>	<u>236,514</u>	<u>61,305</u>	<u>193,080</u>	<u>311,405</u>	<u>841,870</u>	<u>1,082,911</u>

26.2 This includes Rs 1,685,276 thousand (2006:Rs 2,826,602 thousand) being the cost of WLL terminals provided to customers during the year. It also includes stores written off during the year amounting to Rs 85,521 thousand (2006: NIL).

26.3 This includes co-location charges of Rs 116,102 thousand (2006: Rs 991,125) payable to NTC for the current year.

Notes to the Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
26.4 Auditors' remuneration		
The charges for legal and professional services include the following in respect of auditors' services for:		
A F Ferguson & Co.		
Statutory audit including half yearly review	4,250	4,250
KPMG Taseer Hadi & Co.		
Statutory audit including half yearly review	4,250	4,250
	<u>8,500</u>	<u>8,500</u>
26.5 This represents amount payable to Emirates Telecommunication Corporation (Etisalat), a related party, under a technical service agreement between the company and Etisalat for a period of five years commencing October 1, 2006 at the rate of 3.5% of PTCL's share in PTCL group's consolidated annual revenue.		
26.6 Depreciation and amortization includes amortization of license fee Rs 196,278 thousand (2006: Rs 223,906 thousand) and investment in SEA-ME-WE of Rs 402,794 thousand (2006: Rs 332,765 thousand).		
26.7 This represents company's contribution to Information Communication Technology (ICT) Research and Development Fund at the rate of 1% of its gross revenue less inter operator payments and payments towards research and development activities in Pakistan in accordance with the terms and conditions of its license to provide telecommunication services.		
26.8 This is net of security deposits amounting to Rs 701,678 thousand (2006: NIL).		
	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
27. Non-operating income		
Income from financial assets:		
Mark up on loans and advances	90,576	98,382
Dividend – note 27.1	402,073	710,493
Return on deposits	2,966,199	1,913,088
Late payment surcharge from subscribers on over due bills	579,296	591,229
Net exchange gain	44,830	19,718
Liabilities written back	279,677	–
Security deposits written back – note 11	499,125	–
Interest on balance with PTA against WLL license fee	90,046	–
Income from assets other than financial assets:		
Profit on sale of fixed assets	31,528	45,824
Others	557,853	534,197
	<u>5,541,203</u>	<u>3,912,931</u>
27.1 This includes dividend from following related parties:		
Pak Telecom Mobile Limited	400,000	700,000
Carrier Telephone Industries (Private) Limited	–	7,176
TF Pipes Limited	2,073	3,317
	<u>402,073</u>	<u>710,493</u>



	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
28. Finance cost		
Interest and other charges on Suppliers' credit	14,052	32,962
Bank and other charges	368,645	303,439
Imputed interest on payment to PTA against WLL license fee	127,478	–
	<u>510,175</u>	<u>336,401</u>
29. Provision for taxation		
For the year		
Current	9,009,604	10,327,852
Deferred	(906,852)	202,478
	8,102,752	10,530,330
Prior years		
Current	(1,340,543)	(748,268)
Deferred	1,342,753	414,556
	2,210	(333,712)
	<u>8,104,962</u>	<u>10,196,618</u>
29.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
	%	%
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	–	(0.19)
Chargeable to tax at lower rates / effect of change in prior year's tax	(0.87)	(1.89)
	(0.87)	(2.08)
Average effective tax rate charged to profit and loss account	<u>34.13</u>	<u>32.92</u>

30. Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged in the financial statements for the year ended June 30, 2007 in respect of remuneration, including certain benefits to the Chairman, Chief Executive and Executives of the company is as follows:

	Chairman		Chief Executive			Executives	
	June 30 2007	June 30 2006	March 9 2007 to June 30 2007	July 1 2006 to March 8 2007	June 30 2006	June 30 2007	June 30 2006
Number of persons	1	1	1	1	1	119	74
	(Rupees in thousand)						
Managerial remuneration	–	–	9,098	39,617	18,807	156,757	104,912
Honorarium	300	325	–	–	–	–	–
Bonus	–	–	–	–	500	1,580	2,945
Contribution to pension fund and gratuity	–	–	–	–	1,690	8,756	5,132
Housing	–	–	1,444	–	742	45,361	20,347
Utilities	–	–	–	–	1,539	11,748	8,344
	<u>300</u>	<u>325</u>	<u>10,542</u>	<u>39,617</u>	<u>23,278</u>	<u>224,202</u>	<u>141,680</u>

Notes to the Financial Statements for the year ended June 30, 2007

The company also provides free medical, free transport and limited residential telephone facility to all its Executives and the Chief Executive. The Chairman is entitled for free transport and limited residential telephone facility whereas the Directors are provided with limited telephone facility.

The aggregate amount charged in the financial statements for the year includes Rs 520 thousand (2006: Rs 475 thousand) as fee for 8 directors (2006: 12 directors) for attending board and its sub-committee meetings. The Chairman, Chief Executive Officer and Mr Noor-ud-Din Baqai (Director) were not paid the fee for attending board and its sub-committee meetings.

31. Rates of exchange

Assets and liabilities in foreign currencies have been translated into Rupees at the following exchange rates:

			2007	2006	
US \$ 1	Buying Rate	=	Rupees	60.4000	60.1500
US \$ 1	Selling Rate	=	Rupees	60.6000	60.3500
			June 30, 2007	June 30, 2006	
			(Rupees in thousand)		

32. Cash flow from operating activities

Cash generated from operations

Profit before taxation		23,743,715	30,974,048
Add/(less) adjustments for non cash charges and other items:			
Depreciation of property, plant and equipment		12,345,628	11,655,477
Amortization of investment		402,794	332,765
Provision for impairment of investment		–	202,711
Provision against long term loan due from subsidiary		150,000	–
Amortization of intangible assets		196,278	223,906
Provision for doubtful debts		6,292,835	1,574,946
Employee retirement benefits		841,870	1,082,911
Bad debts written off		533,597	–
Imputed interest on payment to PTA against WLL license fee		127,478	–
Profit on sale of fixed assets		(31,528)	(45,824)
Dividend		(402,073)	(710,493)
Return on deposits		(2,966,199)	(1,913,088)
Provisions no longer required written back		(279,677)	–
Security deposits written back		(499,125)	–
Provision for obsolete stores		149,577	(291,532)
Finance cost		382,697	336,401
Working capital changes	– note 32.1	3,007,524	1,401,627
		<u>43,995,391</u>	<u>44,823,855</u>



		June 30, 2007 (Rupees in thousand)	June 30, 2006
32.1 Working capital changes			
(Increase)/decrease in current assets			
Stores and spares		(593,104)	182,475
Trade debts		(543,876)	(3,093,598)
Loans and advances		82,946	1,575,478
Increase in current liabilities			
Trade and other payables (net)		4,061,558	2,737,272
		<u>3,007,524</u>	<u>1,401,627</u>
33. Cash and cash equivalents			
Cash and bank balances	– note 24	33,283,660	22,598,785
Short term borrowings	– note 14	(2,145,948)	(3,763,303)
		<u>31,137,712</u>	<u>18,835,482</u>

34. Capacity

	Access lines installed (ALI)		Access lines in service (ALIS)	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(Number)			
Number of lines	9,001,689	8,304,964	5,569,016	5,700,694

ALI represents switching lines. ALI include 195,012 (2006: 189,676) and ALIS include 113,640 (2006: 114,985) Primary Rate Interface and Basic Rate Interface respectively. ALI and ALIS also include 2,518,700 (2006: 2,298,400) and 894,135 (2006 : 574,184) WLL connections respectively.

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

ALI does not include 180,124 lines (2006: 185,338 lines) relating to mechanical exchanges which are redundant and are being disposed off.

	June 30, 2007 (Rupees in thousand)	June 30, 2006
35. Earnings per share		
35.1 Basic earnings per share		
Profit after taxation (Rupees in thousand)	15,638,753	20,777,430
Weighted average number of ordinary shares	<u>5,100,000,000</u>	<u>5,100,000,000</u>
Earnings per share (Rupees)	<u>3.07</u>	<u>4.07</u>

35.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.

Notes to the Financial Statements for the year ended June 30, 2007

36. Financial assets and liabilities

	Interest / Mark-up Bearing		Non Interest / Mark-up Bearing		(Rupees in thousand)	
	Maturity upto one year	Maturity within one year to five years	Maturity upto one year	Maturity within one year to five years	June 30, 2007	June 30, 2006
	Sub Total		Sub Total			
Financial assets						
Long term investments	-	-	-	87,579	87,579	87,579
Long term loans	40,962	122,555	369,413	1,051,585	1,584,515	2,786,585
Trade debts	-	-	11,411,412	-	11,411,412	17,862,049
Loans, advances, deposits and other receivables	-	-	2,618,182	-	2,618,182	2,644,962
Cash and bank balances	32,285,162	-	998,498	-	33,283,660	22,598,785
	<u>32,326,124</u>	<u>122,555</u>	<u>15,397,505</u>	<u>1,139,164</u>	<u>48,985,348</u>	<u>45,979,960</u>
Financial liabilities						
Suppliers' credit	171,581	-	-	-	171,581	600,703
Payable to PTA against WLL license fee	-	-	-	1,601,222	1,601,222	-
Long term security deposits from customers	-	-	-	1,195,784	1,195,784	2,755,896
Trade and other payables	-	-	16,048,274	-	16,048,274	14,822,974
Interest and accrued markup	-	-	1,380	-	1,380	12,323
Short term borrowings	-	-	2,145,948	-	2,145,948	3,763,303
	<u>171,581</u>	<u>-</u>	<u>18,195,602</u>	<u>2,797,006</u>	<u>21,164,189</u>	<u>21,955,199</u>

The company has no financial asset or liability having maturity after five years.

The effective interest/mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.



36.1 Financial risk management objectives

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in interest rates. The company has long term financing agreements with suppliers which are subject to interest rate risk as disclosed in note 7.

(b) Foreign exchange risk management

The company has certain loans and receivables to be settled in foreign currency. In addition it also has certain foreign currency investments. The company's exposure to currency risk is considered to be minimum.

(c) Credit risk

The company's credit risk is primarily attributable to its trade receivables and its balances at bank. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The company has no significant concentration of credit risk as exposure is spread over a large number of counter parties and subscribers in the case of trade debts. Out of the financial assets aggregating Rs 48,985,348 thousand (2006: Rs 45,979,960 thousand), the financial assets which are subject to credit risk, amount to Rs 46,746,909 thousand (2006: Rs 42,102,124 thousand).

(d) Fair values of financial assets and liabilities

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

(e) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy to ensure availability of funds and meet its funding requirements.

37. Transactions with related parties

The related parties comprise associated undertakings, subsidiaries, employee retirement benefit plans and key management personnel. The company in the normal course of business carries out transactions with various related parties on commercial terms and conditions. Amounts due from and to related parties are shown under receivables and payables. Remuneration of key management personnel is disclosed in note 30.

Enterprises where control exists

Subsidiaries

Pak Telecom Mobile Limited
Paknet Limited

Other related parties with whom the company had transactions

Associates

Telecom Foundation
Telecom Foundation Pipes Limited
Etisalat International Pakistan (EIP)
Etisalat – UAE

Employee benefit plans

Pakistan Telecommunication Employee Trust
General Provident Fund Trust

Notes to the Financial Statements for the year ended June 30, 2007

Disclosure of transactions between the company and related parties other than those which have been disclosed elsewhere in these accounts:

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
Subsidiaries	Purchase of goods and services	1,761,669	3,686,728
	Sale of goods and services	3,391,415	2,215,065
	Mark-up on long term loans	71,564	56,740
	Income from late delivery charges	–	2,276
Associates	Purchase of goods and services	683,581	329,027
	Sale of goods and services	1,671,637	2,660,819

38. Events after the balance sheet date

The Board has recommended to issue cash dividend of Rs 2 for each ordinary share of Rs 10 each.

39. Date of authorisation for issue of financial statements

These financial statements were authorised for issue on September 14, 2007 by the Board of Directors of the company.

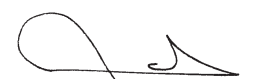
40. Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purposes of comparison. During the year following significant rearrangements have been made for more appropriate presentation.

Reclassified due from National Telecommunication Corporation

From	To	(Rupees in thousand)
Loans, advances, deposits, prepayments and other receivables	Trade debts	1,802,066

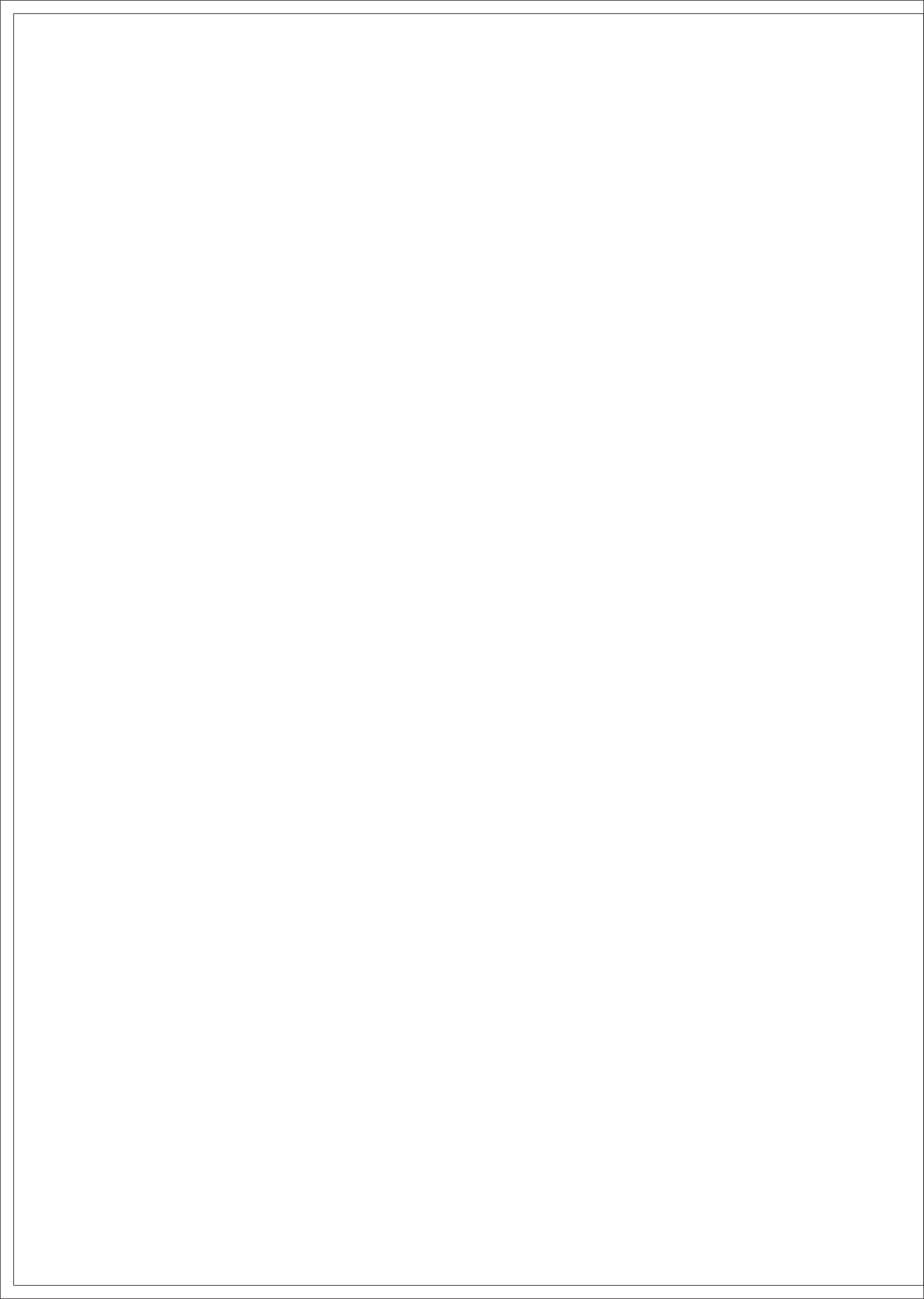

Chairman


President & CEO

Consolidated Financial Statements

Pakistan Telecommunication Group



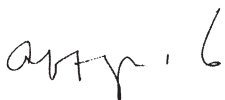


Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakistan Telecommunication Company Limited (the holding company) and its subsidiary companies (hereinafter referred as the "Pakistan Telecommunication Group") as at June 30, 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Pakistan Telecommunication Company Limited. The subsidiary company Paknet Limited was audited by A. F. Ferguson & Co., while Pak Telecom Mobile Limited was audited by other firm of auditors, whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary.

In our opinion, the consolidated financial statements audited by us present fairly the financial position of Pakistan Telecommunication Group as at June 30, 2007 and the results of its operations for the year then ended.



A F Ferguson & Co.
Chartered Accountants

Lahore
September 15, 2007



KMPG Taseer Hadi & Co.
Chartered Accountants

Consolidated Balance Sheet as at June 30, 2007

	Note	June 30, 2007 (Rupees in thousand)	June 30, 2006
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
11,100,000,000 "A" class ordinary shares of Rs 10 each		111,000,000	111,000,000
3,900,000,000 "B" class ordinary shares of Rs 10 each		39,000,000	39,000,000
		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up capital	5	51,000,000	51,000,000
Insurance reserve	6	1,749,047	1,492,414
General reserves		30,500,000	30,500,000
Unappropriated profit		30,966,132	24,622,980
		114,215,179	107,615,394
NON CURRENT LIABILITIES			
Long term loans and other borrowings – secured	7	10,348,250	10,233,939
Liabilities against assets subject to finance lease	8	2,231	5,867
Payable to PTA against license fee	9	1,768,681	193,624
Deferred taxation	10	5,234,579	4,094,590
Employee retirement benefits and other obligations	11	12,378,636	11,691,317
Long term security deposits from customers – non interest bearing	12	1,587,805	3,009,404
Other long term liabilities		4,138,063	1,500,000
		35,458,245	30,728,741
CURRENT LIABILITIES			
Trade and other payables	13	24,460,644	21,526,362
Interest and markup accrued		21,490	26,250
Short term borrowings	14	3,674,630	4,036,745
Current portion of			
Long term loans and other borrowings – secured	7	1,440,030	1,896,377
Liabilities against assets subject to finance lease	8	3,635	3,408
Employee retirement benefits and other obligations	11	12,774	–
Payable to PTA against license fee	9	26,966	28,467
Taxation		2,709,157	2,571,324
Dividend payable		–	5,787,000
		32,349,326	35,875,933
CONTINGENCIES AND COMMITMENTS	15	<u>182,022,750</u>	<u>174,220,068</u>

The annexed notes from 1 to 41 form an integral part of these financial statements.


Chairman



	Note	June 30, 2007 (Rupees in thousand)	June 30, 2006
NON CURRENT ASSETS			
Property, plant and equipment	16	97,817,992	95,111,296
Capital work-in-progress	17	17,961,583	15,175,210
Assets subject to finance lease	18	4,983	8,978
Intangible assets	19	3,898,249	4,777,723
Long term investments	20	3,917,383	3,625,429
Long term loans	21	1,174,140	1,312,867
		124,774,330	120,011,503
CURRENT ASSETS			
Stores and spares	22	3,879,206	3,435,679
Stock in trade	23	270,464	227,417
Trade debts	24	11,543,494	18,191,833
Loans, advances, deposits, prepayments and other receivables	25	6,296,871	6,185,933
Cash and bank balances	26	35,258,385	26,167,703
		57,248,420	54,208,565
		<u>182,022,750</u>	<u>174,220,068</u>

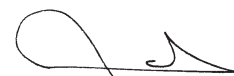
President & CEO

Consolidated Profit and Loss Account for the year ended June 30, 2007

	Notes	June 30, 2007 (Rupees in thousand)	June 30, 2006
Revenue	27	81,406,709	80,378,064
Operating cost	28	(59,283,989)	(49,883,705)
Operating profit		22,122,720	30,494,359
Non-operating income	29	5,478,688	4,336,159
Finance cost	30	(1,880,029)	(1,077,345)
		25,721,379	33,753,172
Share of profit of associate		846	4,002
Profit before taxation		25,722,225	33,757,174
Provision for taxation			
Group	31	(8,921,264)	(11,255,253)
Associate	31	(223)	(1,352)
		(8,921,487)	(11,256,605)
Profit after taxation		16,800,738	22,500,569
Earnings per share - basic and diluted (Rupees)	36	3.29	4.41

The annexed notes from 1 to 41 form an integral part of these financial statements.


Chairman

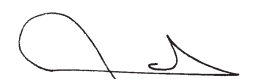

President & CEO

Consolidated Cash Flow Statement for the year ended June 30, 2007

	Notes	June 30, 2007 (Rupees in thousand)	June 30, 2006
Cash flows from operating activities			
Cash generated from operations	34	48,230,334	54,110,575
Long term security deposits		(220,796)	403,807
Employees' retirement benefits		(195,671)	(2,483,239)
Income tax paid		(7,643,665)	(8,757,998)
Finance cost paid		(1,412,198)	(740,804)
		(9,472,330)	(11,578,234)
Net cash from operating activities		38,758,004	42,532,341
Cash flows from investing activities			
Fixed capital expenditure		(20,613,508)	(27,415,051)
Intangible assets		(9,900)	–
Long term investments		(694,748)	(1,385,482)
Long term loans		152,070	33,990
Return on deposits		3,281,086	2,218,281
Sale proceeds from disposal of property, plant and equipment		43,758	224,802
Net cash used in investing activities		(17,841,242)	(26,323,460)
Cash flows from financing activities			
Long term loans and other borrowings received		7,500,000	4,223,044
Long term loans and other borrowings repaid		(7,842,036)	(1,153,476)
Other long term liabilities		4,843,375	1,686,613
Lease rental paid		(3,409)	(3,370)
Minority Interest		–	(7,251)
Dividend paid		(15,961,895)	(9,681,862)
Net cash used in financing activities		(11,463,965)	(4,936,302)
Net increase in cash and cash equivalents		9,452,797	11,272,579
Cash and cash equivalents at beginning of the year		22,130,958	10,858,379
Cash and cash equivalents at end of the year	34.2	31,583,755	22,130,958

The annexed notes from 1 to 41 form an integral part of these financial statements.


Chairman

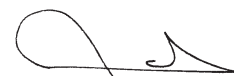

President & CEO

Consolidated Statement of Changes in Equity for the year ended June 30, 2007

	(Rupees in thousand)					Total
	Share capital		Revenue reserves			
	Class "A"	Class "B"	Insurance Reserve	General reserve	Unappropriated profit	
Balance as at June 30, 2005	37,740,000	13,260,000	1,508,411	30,574,371	16,544,178	99,626,960
Adjustment of intergroup profit on purchases of fixed assets from CTI / TIP eliminated in prior years	-	-	-	-	803,862	803,862
Net profit for the year	-	-	-	-	22,500,569	22,500,569
Transfer of general reserve of TIP/CTI to Profit and Loss	-	-	-	(74,371)	74,371	-
Interim dividend on ordinary shares for year ended June 30, 2006 @ Rs 3 per share	-	-	-	-	(15,300,000)	(15,300,000)
Reserve utilized during the year	-	-	(15,997)	-	-	(15,997)
Balance as at June 30, 2006	37,740,000	13,260,000	1,492,414	30,500,000	24,622,980	107,615,394
Net profit for the year	-	-	-	-	16,800,738	16,800,738
Transfer to insurance reserve	-	-	257,586	-	(257,586)	-
Final dividend for the year ended June 30, 2006 @ Rs 2 per share	-	-	-	-	(10,200,000)	(10,200,000)
Reserve utilized during the year	-	-	(953)	-	-	(953)
Balance as at June 30, 2007	37,740,000	13,260,000	1,749,047	30,500,000	30,966,132	114,215,179

The annexed notes from 1 to 41 form an integral part of these financial statements.


Chairman


President & CEO

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

1. Legal status and nature of business

- 1.1 The Pakistan Telecommunication Company Limited (PTCL) (the "holding company") and its subsidiaries, Pak Telecom Mobile Limited, Paknet Limited (together, "The group") are the providers of telecommunication services in Pakistan.

2. Statement of compliance

- 2.1 These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, interpretations and amendments to published approved accounting standards

2.2.1 Amendments to published standards effective in 2006

IAS 19 (Amendment) – Employee Benefits, is mandatory for the group's accounting periods beginning on or after July 01, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. The group does not intend to adopt the alternative approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 11 to the financial statements.

2.2.2 Standards, amendments and interpretations effective in 2006 but not relevant

Other new standards, amendments and interpretations that are mandatory for the group's accounting periods beginning on or after July 1, 2006 are considered not to be relevant or have any significant effect to the group's operations.

2.2.3 Standards or interpretations not yet effective but relevant

IFRS 3 'Business Combination' and certain amendments to IAS 1 'Presentation of financial statements' – Capital Disclosure have been published that are applicable to the group's financial statements covering annual periods, beginning on or after July 01, 2007. Adoption of IFRS 3 will result in change in accounting policy for goodwill. As a result, goodwill would not be amortised, however, it will be tested annually for impairment. Adoption of amendments to IAS 1 will impact the nature and extent of disclosures made in the future financial statements of the group.

3. Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for revaluation of certain financial instruments at fair value and recognition of license fee payable and certain employee retirement benefits at present value.

The Board of Directors of the holding company have approved the merger of Paknet Limited (a subsidiary company) with the holding company. All assets and liabilities will be transferred to the holding company at book value. Legal formalities in this respect are in progress. The financial statements of the subsidiary have not been prepared on the basis of going concern.

The preparation of consolidated financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the companies accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

a)	Retirement benefit obligation	– note 4.5
b)	Provision for taxation	– note 4.4
c)	Accrued liabilities	– note 4.15
d)	Useful life and residual values of property, plant and equipment	– note 4.7
e)	Provision for doubtful debts	– note 4.13

4. Summary of significant accounting policies

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

4.1 Principles of consolidation

The consolidated financial statements include Pakistan Telecommunication Company Limited and all companies in which it directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. Subsidiaries are consolidated from the date of acquisition using the purchase method. Under this method, the cost of an acquisition is measured at the fair value of assets given, equity instruments issued and liabilities assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over fair value of the group's share of the identifiable net assets is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in profit and loss account.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Details of subsidiaries are given in note 38. Investments in associated companies, where the group has significant influence, are accounted for by the equity method. The listing of associates is given in note 20.

Minority interests are that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned by the holding company.

Goodwill (being the difference between the consideration paid for new interests in group companies and the value of the group's share of their net assets at the date of acquisition) is written off immediately against reserves in the year of acquisition.

4.2 Insurance reserve

The assets of the holding company are self insured. The holding company commenced an endowment fund in the year 1999-2000 and deposited funds in a separate bank account which was closed in the year 2005. The reserve is to be utilized to meet any loss resulting from theft, fire or natural disasters.

4.3 Loans and borrowings

Loans and borrowings are recorded at the proceeds received. Finance cost is accounted for on an accrual basis and is either added to the carrying amount of the instrument or disclosed as interest and markup accrued to the extent of the amount remaining unpaid.

4.4 Taxation

Current Taxation

Provision for current tax is based on the taxable income for the year of each group company determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments where considered necessary to provision for tax made in previous years arising from assessments framed during the year.

Deferred Taxation

Deferred tax for each group company is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised 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 tax is calculated at the rates that are expected to apply to the year when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.5 Employee retirement benefits and other obligations

The group operates different schemes for staff retirement benefits in its group companies.

The main features of the schemes operated by the group in the holding company and its subsidiaries are as follows:

Pakistan Telecommunication Company Limited

(a) Pension obligations

The company operates an approved funded pension scheme through a separate trust called the "Pakistan Telecommunication Employee Trust" (PTET) for its employees recruited prior to January 1, 1996 when the company took over the business from PTC.

The company also operates an unfunded pension scheme for employees recruited after December 31, 1995.

Provisions are made annually to cover the obligations under the schemes on the basis of actuarial valuations and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in the balance sheet represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost and as reduced by the fair value of the plan assets.

Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the greater of the present value of the company's pension obligations and the fair value of plan assets are amortised over the expected average working lives of the participating employees.

The principal actuarial assumptions used in the valuation as at June 30, 2007 were as follows:

Expected rate of return per annum on plan assets	9% per annum
Discount rate	10% per annum
Indexation of pension	6% per annum
Expected mortality rate	EFU 61 – 66 mortality table adjusted for company's experience
Expected withdrawal rate	Based on experience

The expected rate of return is based on market expectation, at the beginning of the period, for returns over the entire life of the related obligation. It considers the expected returns on the re-investments of maturity proceedings in similar instruments upto the life of related obligations. The expected rate of return also considers the changes of plan assets during the year on account of contributions and benefit payments. The model results in expected rate of return of 9.4%. The rounded expected rate of return used for the Fund Assets is 9.0% during 2006-07.

(b) Medical benefits

The company provides post retirement medical benefits to employees and their families. Under the unfunded scheme all such employees, their spouses, children upto the age of 21 and parents residing with and dependent on the employee are entitled to the benefit. Unmarried daughters are not subject to 21 years age limit. The pensioner and the family are entitled to the facility upto the life of the pensioner and spouse. There are no annual limits to the cost of drugs, hospital in patient treatment and consultation fees.

Provisions are made annually to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in the balance sheet represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the present value of the company's obligations are amortised over a period of thirteen years.

The principal assumptions used in the valuation as at June 30, 2007 were as follows:

Discount rate	10% per annum
Expected rate of increase in medical costs	9% per annum
Expected mortality rate	EFU 61-66 mortality table adjusted for company's experience

(c) Accumulating compensated absences

The company provides a facility to its employees for accumulating their annual earned leave. Under the unfunded scheme employees are entitled to four days of earned leave per month. Unutilised leave can be accumulated without limit and can be used at any time subject to the company's approval upto 120 days in a year without medical certificate, 180 days with medical certificate and 365 days during the entire service of the employee. Upto 180 days of accumulated leave can be encashed on retirement provided the employee has a minimum leave balance of 365 days.

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in the balance sheet represents the present value of the defined benefit obligations.

Actuarial gains and losses are charged to profit immediately in the period when these occur.

The principal assumptions used in the valuation as at June 30, 2007 were as follows:

Expected increase in salary	9%
Discount rate	10%
Expected mortality rate	EFU 61-66 mortality table adjusted for company's experience

(d) Provident fund

The company operates approved funded provident fund covering permanent employees. For the purposes of the scheme a separate trust titled as "PTCL Employees GPF Trust" has been established. Monthly contributions are deducted from the salaries of employees and are to be paid to the Trust by the company. Interest is paid at the rate announced by the Federal Government. Such rate for the year was 11% per annum (2006:10.5%) per annum. The company contributes to the fund the differential, if any, of the interest charge for the year and the income earned on the investments made by the Trust. The contributions deducted from the employees during the year and interest payable by the company for the year, if any, appear as other liabilities.

(e) Gratuity

The company operates an approved unfunded gratuity scheme for its contractual employees. Provisions are made annually to cover the obligation under the scheme on the basis of actuarial valuations and are charged to profit. The most recent valuation was carried out as at June 30, 2007 using the "Projected unit credit method".

The amount recognised in balance sheet represents the present value of the defined benefit obligation as on June 30, 2007 as adjusted for unrecognised actuarial gains and losses.

Cumulative net unrecognised actuarial gains and losses at the end of the previous year which exceed 10% of the present value of the company obligations are amortised over the expected average working lives of the participating employees.



The principal assumptions used in the valuation as at June 30, 2007 were as follows:

Discount rate	10% per annum
Expected increase in salaries	9% per annum
Average expected remaining working lifetime of contractual employees	6 years

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

Paknet Limited

The Company has following retirement benefit plans for its employees:

(a) Gratuity

Unfunded gratuity scheme for all employees who complete qualifying period of service. Liability for gratuity is based on actual amount payable to employees on June 30, 2007 (2006: Based on actuarial valuation).

(b) Accumulated compensated absences

The company provides facility to its regular employees for accumulating their annual earned leave. Liability for accumulated compensated absences is based on actual amount to payable to employees on June 30, 2007 (2006: Based on actuarial valuation).

(c) Pension

The company contributes towards the pension fund of certain executives who are the members of pension fund of the holding company upto last year.

Pak Telecom Mobile Limited

a) Employees' retirement benefits

- i) The company operates an unfunded gratuity scheme for all permanent employees. The liability is provided on the basis of actuarial valuation as carried out at June 30, 2007 using "Projected unit credit method". The actuarial gains and losses are amortised over the expected remaining service of employees. Significant actuarial assumptions used are as follows:

Valuation discount rate	10% per annum
Expected salary increase rate	10% per annum
Average expected remaining working life of employees	13 years

- ii) The company also operates an approved contributory provident fund for all its employees for which contributions are charged to income for the year.

b) Accumulated compensated absences

The company provides a facility to its employees for accumulating their annual earned leave. The liability is provided on the basis of actuarial valuation carried out as at June 30, 2007 using "Projected unit credit method". Actuarial gains and losses are amortised over the expected remaining service of employees.

The principal actuarial assumptions used in the valuation as at June 30, 2007 are as follows:

Valuation discount rate	10% per annum
Salary increase rate	10% per annum
Average number of leaves utilized per annum	12 days
Average number of leaves accumulated per annum	8 days

4.6 Trade and other payables

These are stated at their nominal value. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the instrument.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

4.7 Fixed capital expenditure and depreciation/amortisation

Property, plant and equipment, except freehold land are stated at cost less accumulated depreciation/amortisation and any identified impairment loss. Freehold land and capital work in progress are stated at cost less any identified impairment loss. Cost includes direct cost, related overheads, mark up and interest referred to in note 4.21.

Depreciation/amortisation on property, plant and equipment is charged to profit using the straight line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given in note 16. Depreciation on additions is charged from the month asset is available for use while no depreciation is charged in the month in which the asset is disposed off. Impairment loss or its reversal, if any, is also charged to profit. Where an impairment loss is recognised, the depreciation charge is adjusted in future periods to allocate the assets revised carrying amount over their estimated useful life.

The assets' residual values and useful lives are reviewed at each financial year end, and adjusted if impact on depreciation is significant.

The group assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful life.

Major renewals and improvements are capitalized. Minor repairs and renewals are charged to profit. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.8 Intangible assets

License

These are stated at cost less accumulated amortisation and any identified impairment loss and are amortised on a straight line basis over the period of the license.

Software

These are amortised on a straight line basis over the expected useful life of the software.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalized while no amortisation is charged for the month in which the asset is disposed off. Impairment loss or its reversal, if any, is also charged to income. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.9 Leases

Finance lease

Assets held under finance lease are initially recorded at lower of fair value and present value of minimum lease payments under the lease agreements. Minimum lease payments under the leases less financial charges allocated to future periods are shown as liability. The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability.

Depreciation is charged at the same rates as charged on owned assets. When there is no reasonable certainty that the ownership of the asset will be transferred at the end of lease term, asset is depreciated over the shorter of the lease term and its useful life.



4.10 Long term investments

4.10.1 Associated companies

Interest in associated companies is stated at the group's share of their underlying net assets using the equity method. If an indication exists for an impairment, the provision for impairment loss is estimated and recognised as expense.

4.10.2 Other investments

The management determines the appropriate classification of its investments in accordance with the requirements of International Accounting Standard 39; Financial Instruments: Recognition and Measurement (IAS 39) at the time of purchase of investment and re-evaluates this classification on a regular basis. The existing investment portfolio of the group has been categorized as available for sale.

4.10.3 Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates these investments are measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which the quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

Financial assets classified as available for sale are recognized initially at fair value and any unrealised gains and losses arising from changes in fair value are recognized directly in equity in the period in which they arise.

All purchases and sales of investments are recognized on the trade date which is the date the group commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each reporting date, the group reviews the carrying amounts of the investments to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss if any. Impairment losses are recognized as expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. A reversal of the impairment loss is recognized in income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

4.11 Stores and spares

Usable stores and spares are valued principally at moving average cost while items considered obsolete are carried at nil value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

4.12 Stock in trade

Stock in trade is stated at lower of cost and net realizable value. Cost is determined using first-in-first-out basis.

Items in transit are stated at cost comprising invoice value and other charges paid thereon.

Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the costs of realization.

4.13 Trade debts

Trade debts are stated at their nominal value as reduced by appropriate provision for debts considered to be doubtful. Bad debts are written off when identified.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

4.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value.

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and demand deposits and short term borrowings.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. In the balance sheet, short term borrowings are included in current liabilities.

4.15 Provisions

Provisions are recorded when the group has a present, legal or constructive obligation as a result of a past event and it is probable that it will result in an outflow of economic benefits for which a reliable estimate can be made of the amount of the obligation.

4.16 Financial instruments

Financial assets and financial liabilities are recognized at the time when the group becomes a party to the contractual provisions of the instrument and derecognized when the group loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include long term investments, long term loans, trade debts, loans, advances, deposits and other receivables, cash and bank balances, suppliers' credit, long term loans, other long term liabilities, license fee payable, long term security deposits from customers, liabilities against assets subject to finance lease, trade and other payables, interest and accrued markup and short term borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.17 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.18 Derivative financial instruments

These are initially recorded at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates.

4.19 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into Rupees at exchange rates prevailing at the balance sheet date except those covered under forward exchange contracts, which are stated at contracted rate. Transactions in foreign currencies are translated into Rupees at the spot rate except for those covered by forward contracts, which are translated at contracted rates. All non-monetary items are translated into Rupees at exchange rates prevailing on the date of transactions or on the date when fair values are determined. Any component of an exchange gain or loss relating to a recognized change in the fair value of non-monetary assets is charged to profit. All of the exchange differences are included in profit currently.

4.20 Revenue recognition

Revenue from:

- telecommunication services is recognized when services have been rendered;
- cellular operations is recognised on accrual basis, as related services are rendered;
- prepaid cards is recognised as credit is used;
- return on deposits is accrued on a time proportion basis with reference to principal outstanding and the applicable rate of return;
- dividend income and return from investments is recognised when the right to receive has been established.



4.21 Borrowing costs

Mark-up, interest and other charges on suppliers' credit and other borrowings are capitalized upto the date of commissioning of the respective qualifying asset, acquired out of the proceeds of such suppliers' credit and other borrowings. All other mark-up, interest, profit and other charges are charged to profit.

4.22 Dividend

Dividend distribution to the group's shareholders is recognised as a liability in the period in which the dividends are approved.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
5. Issued, subscribed and paid up capital		
3,774,000,000 (2006: 3,774,000,000) "A" class ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	37,740,000	37,740,000
1,326,000,000 (2006: 1,326,000,000) "B" class ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	13,260,000	13,260,000
	<u>51,000,000</u>	<u>51,000,000</u>

5.1 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 (Reorganization) Act, 1996.

5.2 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 can not 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 submitted to the group by the holders of three fourths of the "B" class ordinary shares. In the event of termination of the license issued to the group under the provisions of Pakistan Telecommunication (Reorganization) Act, 1996 or at any time within three years from April 12, 2006, if there is any change of control of any member holding "B" class ordinary shares without the prior written approval of Government of Pakistan, the "B" class ordinary shares shall be automatically converted into "A" class ordinary shares.

5.3 The Government of Pakistan through an offer for Sale Document, dated July 30, 1994 issued to domestic investors a first tranche of vouchers exchangeable for "A" class ordinary shares of the group and through an Information Memorandum dated September 16, 1994 issued a second tranche of vouchers to the international investors also exchangeable, at the option of voucher holder for "A" class ordinary shares or global depository receipts (GDRs) representing "A" class ordinary shares of the group. Out of 3,774,000 thousand "A" class ordinary shares, vouchers against 601,084 thousand "A" class ordinary shares were issued to general public. Till June 30, 2007, 599,432 thousand "A" ordinary shares had been exchanged for vouchers.

5.4 In pursuance of the privatization of Pakistan Telecommunication Company Limited, a bid was held by the Government of Pakistan on June 8, 2005 for sale of "B" class ordinary shares of Rs 10 each alongwith management control. Emirates Telecommunication Corporation-(Etisalat) was the successful bidder. The shares alongwith management control were transferred with effect from April 12, 2006 to Etisalat International Pakistan (EIP), UAE which is a subsidiary of Etisalat.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
6. Insurance reserve			
Balance at the beginning of the year		1,492,414	1,508,411
Transferred from unappropriated profit		257,586	–
Reserve utilized during the year		(953)	(15,997)
Balance at the end of the year		<u>1,749,047</u>	<u>1,492,414</u>
7. Long term loans and other borrowings – secured			
Suppliers' credit	– note 7.1	171,581	600,703
Long term loans – secured:			
– from a banking company	– note 7.2	504,754	904,755
– from consortium of banks	– note 7.3	2,133,093	3,199,640
– from consortium of banks	– note 7.4	–	5,953,438
– from consortium of banks	– note 7.5	2,978,852	1,471,780
– syndicated term financing	– note 7.6	6,000,000	–
		<u>11,788,280</u>	<u>12,130,316</u>
Less: Current portion shown under current liabilities:			
– Long term loans from banks		(1,268,449)	(1,466,547)
– Suppliers' credit		(171,581)	(429,830)
		<u>(1,440,030)</u>	<u>(1,896,377)</u>
		<u>10,348,250</u>	<u>10,233,939</u>

7.1 These comprise:

	Currency	Currency balance		Rupee equivalent	
		June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
		(Amounts in thousand)		(Amounts in thousand)	
1. Ssangyong Corporation	US \$	284	854	17,262	51,573
2. Wan Bao, China	US \$	2,289	6,870	138,769	414,591
3. Societe Generale Libano Europeanne De Banque Sal	US \$	255	770	15,550	46,455
4. Ssangyong Corporation	US \$	–	398	–	24,035
5. Samsung Corporation	US \$	–	855	–	51,516
6. Raychem N.V.	US \$	–	208	–	12,533
				<u>171,581</u>	<u>600,703</u>



Balance of borrowing 1 is repayable in one half yearly installment. Interest is payable half yearly at 7.8% per annum. Any amount which remains unpaid after due date bears interest at 2% per annum above contractual rate. In addition the lender is to be reimbursed any costs or losses resulting from the company's default. In case of default, the lender can give a notice in which case the entire outstanding principal and all or any accrued interest amount become immediately due and payable.

Balance of borrowing 2 is repayable in one half-yearly installment. Interest is payable half-yearly at 2% per annum.

Balance of borrowing 3 is repayable in one half yearly installment. Interest is payable half yearly at 10% per annum. Additional interest is payable on overdue installment(s) after due date at 3% per annum. In case of default, the lender can give a notice in which case the entire outstanding principle and all or any accrued interest amount become immediately due and payable.

Borrowings 4, 5 and 6 were repaid during the year.

In 2000-2001 the group was instructed by the Economic Affairs Division (EAD) Government of Pakistan to commence repayment in respect of borrowings 1, 4, 5 & 6 in a Special Rupee Account of the State Bank of Pakistan which was to be considered as settlement of the group's liability towards its lender as per arrangements formalized between the respective lenders and the Government of Pakistan. During the year the group deposited Rs 131,302 thousand (2006: Rs 164,068 thousand) in respect of repayment of principal and interest on these borrowings in Special Rupee Account with the State Bank of Pakistan.

Repayments for borrowings 2 and 3 are to be made directly to the lenders in respective currencies at the prevailing rates on due date.

The amount of suppliers credit committed but not utilized at June 30, 2007 was US \$ 167 thousand (2006: US \$ 167 thousand) in respect of borrowing 3.

Security

Borrowing 2 is secured by deferred payment letters of credit in favor of respective lender. All other borrowings are secured by guarantees from commercial banks, which guarantees are secured by the first charge by way of hypothecation on the holding company's present and future moveable assets including stores and spares and receivables both domestic and international.

7.2 From a banking company

This represents a long term loan of Rs 2.0 billion from a bank on mark up basis. The outstanding balance represents the unpaid principal sum due to the bank at the balance sheet date. The loan carries mark up at 0.74 % over the cut off yield of the last six months treasury bills auctioned, effectively resulting in mark up ranging between 8.79% and 9.23% per annum during the current year. The loan is secured by way of first ranking floating charge and hypothecation over all present and future moveable equipment and other assets of the group. The above loan is repayable in half yearly installments as follows:

	2007 (Rupees in thousand)	2006	Repayment period
Disbursement - 1	4,755	198,098	December 2006 to June 2007
Disbursement - 2	499,999	706,657	December 2006 to December 2009
	<u>504,754</u>	<u>904,755</u>	

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

From consortium of banks

7.3 This represents two syndicated finance facilities of Rs 1.6 billion each, obtained by the company from a syndicate of commercial banks. The outstanding balance represents the unpaid principal sum due to the syndicate at the balance sheet date. First syndicated facility carries markup at 0.8% over the simple average of the cut off yield of the last three six months treasury bills auctioned immediately preceding the markup reset date. During the year markup ranged between 9.21% to 9.61% per annum. The facility is secured by first ranking fixed charge by way of hypothecation over all present and future assets of the PTML. The loan is repayable from December 2006 to June 2009 in six half yearly equal installments.

Second syndicated facility carries markup at 0.8% over the cut off yield of the last six months treasury bills auctioned immediately preceding the markup reset date. During the year markup ranged between 9.29% to 9.61% per annum. The facility is secured by first fixed charge by way of hypothecation over all present and future assets of the PTML. The loan is repayable from December 2006 to December 2009 in six half yearly installments.

7.4 This represents a long term loan of Rs 6 billion from consortium of banks on mark-up basis. The loan has been repaid on June 27, 2007. The loan carried markup at the rate of 6 months KIBOR plus 1.5%. During the year markup ranged between 11.13% to 12.15% per annum. The loan was secured by way of first pari passu hypothecation charge over all present and future current and moveable assets of the PTML.

7.5 This represents a long term loan of Rs 3 billion from consortium of banks on markup basis. The outstanding balance at the balance sheet date represents the unpaid principal balance due to consortium. The loan carries markup at the rate of 6 months KIBOR plus 1.47%. During the year markup ranged between 11.18% to 12.11% per annum. The loan is secured by way of first pari passu hypothecation charge over all present and future current and moveable assets of the PTML. The loan is repayable in half yearly installments as follows:

	2007 (Rupees in thousand)	2006 (Rupees in thousand)	Repayment period
Disbursement	3,000,000	1,500,000	December 2008 to June 2011
Transaction cost	(21,148)	(28,220)	
	<u>2,978,852</u>	<u>1,471,780</u>	

7.6 This represents a long term loan of Rs 6 billion from consortium of banks on markup basis. The outstanding balance at the balance sheet date represents the unpaid principal balance due to consortium. The loan carries markup rate of three months KIBOR plus 1.3%, effectively resulting in markup of 10.88% per annum during the current year. The loan is secured by way of first pari passu charge over all moveable assets of the PTML. The loan is repayable in July 2010.

8. Liabilities against assets subject to finance lease

	2007			2006		
	Minimum lease payments	Finance cost	Principal outstanding	Minimum lease payments	Finance cost	Principal outstanding
	(Rupees in thousand)					
Not later than one year	3,909	274	3,635	3,909	501	3,408
Later than one year and not later than five years	2,280	49	2,231	6,189	322	5,867
	<u>6,189</u>	<u>323</u>	<u>5,866</u>	<u>10,098</u>	<u>823</u>	<u>9,275</u>

The implicit rate of interest is 9% per annum. Rentals are payable in monthly installments. The lease has terms of renewal without purchase option and escalation clauses. Renewals are at option of lessee.



		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
9. License fee payable			
Payable to PTA against WLL license fee – Holding company	– note 9.1	1,601,222	–
Payable to PTA against license fee – Subsidiary (PTML)	– note 9.3	167,459	193,624
		1,768,681	193,624
9.1 Payable to PTA against WLL license fee – Holding company			
Payable to PTA against WLL license fee	– note 9.2	2,105,500	–
Less: Imputed deferred interest		(631,756)	–
Present value of license fee payable		1,473,744	–
Imputed interest charged to profit and loss		127,478	–
		1,601,222	–

9.2 In previous years the holding company had paid to PTA Rs. 4,278,639 thousand in respect of license to provide Wireless Local Loop (WLL) services. During the year PTA has allowed the holding company to adjust Rs. 2,105,500 thousand out of Rs. 4,278,639 thousand already paid against the amount payable to Universal Service Fund (USF). The balance amount of Rs 2,105,500 thousand in respect of license fee is now payable to PTA in March 2010 and carries no interest. The license fee payable has been discounted to present value of future cash flows using effective interest rate of 10% per annum and the corresponding adjustment has been made to the cost of license included in intangible assets. Difference between the amount payable and the present value of cash equivalent is being recognized as imputed interest over the remaining credit period.

		June 30, 2007	June 30, 2006
		(Rupees in thousand)	
9.3 Payable to PTA against license fee – Subsidiary (PTML)			
License fee payable	– note 9.4	272,699	301,750
Less: Imputed deferred interest		(78,274)	(79,659)
Present value of license fee payable		194,425	222,091
Current portion of license fee payable		30,300	30,175
Imputed deferred interest		(3,334)	(1,708)
		26,966	28,467
		167,459	193,624

9.4 This represents Azad Jammu and Kashmir license fee of US \$ 5 million, payable to PTA in ten equal annual installments commencing from June 2007 in US \$ or equivalent Pakistan Rupees. The payable carries no interest. The amount payable has been discounted to present value of future cash flows using US Dollar based interest rate of 6% per annum and the resulting cash price equivalent is recorded as cost of license upon initial recognition. Difference between the purchase price and cash price is recognised as imputed interest expense over the period of the credit.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
10. Deferred taxation		
These comprise of timing differences due to:		
Accelerated tax depreciation	11,360,314	8,728,074
Less: Provision for doubtful debts	(5,097,636)	(3,429,232)
Provision for doubtful advances	(64,509)	(9,296)
Others	(963,590)	(1,194,956)
	<u>5,234,579</u>	<u>4,094,590</u>
11. Employees' retirement benefits and other obligations		
These comprise:		
Pension:		
– Funded – note 11.1	454,071	454,071
– Unfunded – note 11.1	1,018,773	783,087
Gratuity:		
– Unfunded – note 11.1	239,103	163,663
Accumulating compensated absences – note 11.1	1,911,852	1,763,224
Post employment medical – note 11.1	8,767,611	8,527,272
	<u>12,391,410</u>	<u>11,691,317</u>
Less: Current portion shown under current liabilities	(12,774)	–
	<u>12,378,636</u>	<u>11,691,317</u>

Current portion represents liability in respect of employees' retirement benefits of a subsidiary company, Paknet Limited.

11.1 Post employment benefits

	Pension		Gratuity unfunded	Accumulating compensated absences	Post employment medical facility
	Funded	Unfunded			
	(Rupees in thousand)				
Present value of defined benefit obligations – note 11.2	36,529,541	1,180,770	192,335	1,910,834	4,798,947
Fair value of assets – note 11.5	(45,158,318)	–	–	–	–
	<u>(8,628,777)</u>	<u>1,180,770</u>	<u>192,335</u>	<u>1,910,834</u>	<u>4,798,947</u>
Unrecognised actuarial gain/(losses)	<u>9,082,848</u>	<u>(161,997)</u>	<u>45,638</u>	<u>–</u>	<u>3,968,664</u>
Benefits payable to outgoing members	–	–	1,130	1,018	–
Liability at the end of the year	454,071	1,018,773	239,103	1,911,852	8,767,611
Liability at beginning of the year	454,071	783,087	163,663	1,763,224	8,527,272
Charge for the year – note 28.1	39,566	236,514	93,694	214,585	311,405
Contributions	(39,566)	–	–	–	–
Benefits paid during the year	–	(828)	(18,254)	(65,957)	(71,066)
Liability at the end of the year	<u>454,071</u>	<u>1,018,773</u>	<u>239,103</u>	<u>1,911,852</u>	<u>8,767,611</u>

11.2 Changes in the present value of the defined benefit obligations

	Pension Funded		Pension Unfunded		Gratuity		Accumulating compensated absences		Post retirement medical facility	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(Rupees in thousand)									
Opening balance	31,413,488	28,134,077	1,050,561	805,823	194,641	71,640	1,762,043	2,992,817	4,583,853	4,723,962
Current service cost – note 28.1	1,144,259	1,170,035	132,940	124,954	76,054	112,033	25,324	38,512	147,789	178,460
Interest cost – note 28.1	2,827,214	2,532,067	94,551	72,524	16,610	6,448	158,268	269,354	412,547	425,157
Benefits paid	(1,437,017)	(1,026,028)	(828)	(721)	(17,233)	(12,392)	(64,866)	(1,304,798)	(71,066)	(70,319)
Benefit payments due but not settled	–	–	–	–	(1,087)	(873)	(928)	(1,114)	–	–
Actuarial (gains)/losses	2,581,597	603,337	(96,454)	47,981	(76,650)	17,785	30,993	(232,728)	(274,176)	(673,407)
Closing balance	36,529,541	31,413,488	1,180,770	1,050,561	192,335	194,641	1,910,834	1,762,043	4,798,947	4,583,853

11.3 Historical Information

	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
	(Rupees in thousand)				
Defined benefit pension plan - funded					
Present value of defined benefit obligations at year end	36,529,541	31,413,488	28,134,077	23,570,575	21,869,410
Fair value of plan assets at year end	45,158,318	39,243,528	34,241,407	30,251,086	26,576,399
Surplus in the Plan	8,628,777	7,830,040	6,107,330	6,680,511	4,706,989
Experience adjustment on plan liabilities (gains)/losses	2,581,597	603,337	2,538,991	151,643	*
Experience adjustment on plan assets gains/(losses)	3,776,675	2,611,253	2,339,398	2,115,118	*
Defined benefit pension plan - unfunded					
Present value of defined benefit obligations at year end	1,180,770	1,050,561	805,823	519,617	418,342
Experience adjustment on pension liabilities (gains)/losses	(96,454)	47,981	156,338	*	*
Defined benefit gratuity plan					
Present value of defined benefit obligations at year end	192,335	194,641	71,640	52,062	16,698
Experience adjustment on gratuity liability (gains)/losses	(76,650)	17,785	7,563	7,230	(359)
Accumulating compensated absences					
Present value of defined benefit obligations at year end	1,910,834	1,762,043	2,992,817	1,630,738	1,431,719
Experience adjustment on accumulating compensated absences liability (gains)/losses	30,993	(232,728)	(87,023)	3,273	*
Defined benefit post retirement medical facility					
Present value of defined benefit obligations at year end	4,798,947	4,583,853	4,723,962	5,099,000	2,679,714
Experience adjustment on post retirement medical liability (gains)/losses	(274,176)	(673,407)	(890)	*	*

* It is impracticable to determine the amounts of experience adjustments during the year.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

11.4 Major categories of plan assets of defined benefit pension plan-funded as percentage of total plan assets

	June 30, 2007	June 30, 2006
	(Percentage)	
Defence saving certificates	77%	62%
Term finance and other certificates	11%	9%
Pakistan Investment Bonds	11%	18%
Fixed & other assets	1%	11%

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
11.5 Changes in the fair value of plan assets		
Opening balance	39,243,528	34,241,407
Expected return on plan assets	3,531,918	3,081,726
Contributions made by the company during the year	39,566	330,750
Contributions made by the employees - deputationists	3,648	4,420
Benefits paid	(1,437,017)	(1,026,028)
Actuarial gain/(loss) on plan assets	3,776,675	2,611,253
Closing balance	<u>45,158,318</u>	<u>39,243,528</u>
Actual return on plan assets	<u>7,308,593</u>	<u>5,692,980</u>

11.6 Effect of increase/decrease in medical cost trend rate

Effect of 1 % increase in medical cost trend rate in current service cost and interest cost is Rs 50,248 thousand and effect of 1% decrease is Rs 41,381 thousand.

Effect of 1 % increase in medical cost trend rate in present value of defined benefit obligations for medical cost is Rs 1,631,641 thousand and effect of 1% decrease is Rs 1,343,705 thousand.

11.7 In the next financial year the return on plan assets is expected to be higher than pension obligation by an amount of Rs 55,114 thousand.

12. Long term security deposits from customers - non interest bearing

Uptil 1997 the holding company while providing a new telephone connection to a fixed line subscriber obtained a deposit against the telephone set provided to the subscriber. Such deposit being claimable by the subscriber on return of the telephone set in working condition. During the year the holding company has written back such deposits amounting to Rs 499,125 thousand as based on the past experience it considers that the likelihood of a subscriber claiming refund of deposit by returning the set in working condition is remote.



	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
13. Trade and other payables		
Trade creditors	4,195,962	2,990,235
Accrued and other liabilities	5,555,942	6,797,360
Deposits payable on demand - interest free	572,049	844,585
Advances from customers	1,321,874	343,420
Taxes payable		
Income tax collected from subscribers	289,423	331,277
Income tax deducted at source	440,194	62,891
	729,617	394,168
Sales tax payable	1,126,639	1,418,715
Retention money payable to contractors/suppliers	6,776,228	5,082,973
Royalty payable	287,832	165,224
Payable to Research and Development Fund – note 28.6	1,331,233	726,844
Payable to Universal Service Fund	1,354,591	2,363,384
Payable to Pakistan Telecommunication Authority	15,212	15,212
Technical service fee payable to related party – note 28.7	622,948	–
Due to Special Communication Organization	31,801	16,782
Due to satellite companies	51,999	127,021
Unclaimed dividend	118,608	93,503
Others	368,109	146,936
	<u>24,460,644</u>	<u>21,526,362</u>

13.1 Trade creditors and accrued and other liabilities principally comprise amounts outstanding for trade purchases and on going costs

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
14 Short term borrowings		
Short term running finances – note 14.1	<u>3,674,630</u>	<u>4,036,745</u>

14.1 Short term running finance facilities available from commercial banks under mark-up arrangements amount to Rs 4,265,957 thousand (2006: Rs 5,902,812 thousand). Under these arrangements mark-up is computed at the rates ranging from 3.75% to 11.57% per annum.

The aggregate short-term borrowings are secured by charge over fixed and current assets of the holding company.

Short term running finances as above include an amount of Rs 2,145,948 thousand (2006: Rs 3,763,303 thousand) unsecured temporary overdrafts to be repaid by the group immediately upon the payments made by the banks and carry no mark up.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
15. Contingencies and commitments		
Commitments		
15.1 Commitments in respect of:		
a) Capital expenditure	45,322,975	20,517,121
b) Other than for capital expenditure	146,810	344,181
c) Commitments in respect of rentals under lease agreements for vehicles:		
– Not later than one year	3,909	3,909
– Later than one year and not later than five years:	2,280	6,189

Contingencies

15.2 2,171 cases (2006: 2,477 cases) have been filed against the group primarily by subscribers and employees. Because of the number of cases involved and their uncertain nature, it is not possible to quantify their financial effect at present. However, in the management's view the outcome of these cases is expected to be favorable and a liability, if any, arising on the settlement of these cases is not likely to be material.

15.3 In previous years the income tax authorities served show cause notices under section 52 and section 86 of the repealed Income Tax Ordinance 1979 for the assessment years 1996-97 to 1998-1999 on failure to withhold/deduct tax under section 50(3) while making payments to non resident satellite companies. The group filed a writ petition before Lahore High Court against the said notices which was dismissed. An appeal was filed against the dismissal before Honorable Supreme Court of Pakistan which was also dismissed and the company was advised by the Honorable Court to file an appeal before the Income Tax appellate authorities. Subsequently, the company filed an appeal with the Commissioner Income Tax (CIT) Appeals who has annulled the order of the taxation officer. The department has filed an appeal with the Income Tax Appellate Tribunal (ITAT) against the order of CIT (Appeals).

Pending outcome of the appeal, no provision has been made in these accounts for the demands aggregating Rs 1,599,557 thousand (2006: Rs 1,599,557 thousand) since in the management's view, the outcome of the appeal is expected to be favorable.

15.4 International telephone represents revenue from foreign network operators for calls that originate outside Pakistan. Based on foreign operator accounts received upto June 30, 2007, the group's records reflect an additional 112,560 thousand (2006: 92,270 thousand) minutes in respect of such calls as compared to the information received from foreign operators. The matter is being pursued by the group with the foreign operators. Pending resolution of the matter with the foreign operators, revenue if any, which may be due to the group in respect of the additional minutes, can not be estimated and as such has not been recognised as revenue.

15.5 In 1995 the Government of Pakistan, 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 to the Government of Pakistan seeking restoration of its services and claimed damages from the Government amounting to Rs 2,261,924 thousand. The Government of Pakistan ordered for immediate restoration of Pay Card services including rebate relief and discount to all pay phone service providers. In view of relief and discount offered by the Government, Telecard Limited withheld payments on account of their monthly bills to the group and obtained a stay order from the Honorable Sindh High Court for an amount of Rs 110,033 thousand against the group.

On the instructions of Honorable Court, external consultants calculated 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. The Honorable Court has yet to announce its judgement which was reserved in the last hearing of the case. The group has also filed a claim against Telecard Limited for an amount of Rs 324,683 thousand receivable up to December 31, 2001 and Rs 9,416 thousand rebate refund claim.



In another identical case to the above matter M/s Telefon has claimed Rs 97,337 thousand from the group. In the last hearing held on May 9, 2006 issues have been framed and evidence will be recorded in the next hearing. Pending outcome of the case, it is not possible at this stage to quantify the liability, if any.

15.6 M/s Televoice has filed a suit with Honorable Sindh High Court for arbitration claiming Rs 409,125 thousand for breach of interconnect agreement by the group. A counter claim for Rs 120,000 thousand has been lodged by the group in the same court. The arbitrator announced an award of Rs. 115,000 thousand in favor of the group for which execution has been filed by the group with the court.

15.7 Consequent to an audit of central excise duty collected by the group from subscribers for the years 1998-99 and 1999-2000 the Rawalpindi Collectorate of Central Excise Department raised a demand for excise duty alongwith additional duties and penalties amounting to Rs 2,043,268 thousand. The matter was taken up by the group with the Central Board of Revenue (CBR), Government of Pakistan for resolution. A committee was formed comprising representatives from the group and CBR. As a result of the negotiations, the group deposited an amount of Rs 466,176 thousand on account of central excise duty.

It was agreed that the group would retain the right to contest the additional duties and penalties at all appellate forums and in the event of favorable decision the amount would be refunded to the group by Collectorate of Central Excise. The group has filed an appeal to contest the additional duties and penalties levied by the Collectorate. Pending final outcome of the reference, no provision has been made in these accounts for the above demand, since in the management's view the outcome of the appeal is expected to be favorable.

15.8 The Employees' Old-Age Benefits Institute (EOBI) served a demand notice on the group under section 12(3) of Employees' Old Age Benefits (EOBI) Act, 1976 for payment of group's and employees contribution amounting to Rs 1,496,829 thousand for the period January 1, 1996 to May 31, 2005. The management, based on legal opinion, is of the view that the amount is not payable and has filed a writ petition before Honorable High Court which is pending for hearing.

15.9 The Additional Collector, Collectorate of Sales Tax and Federal Excise, Rawalpindi has issued orders raising tax demands of Rs 14,245 thousand and Rs 4,648 thousand along with additional tax and penalty amounting to Rs 20,377 thousand on account of alleged non-payment of central excise duty/ sales tax. The appeals filed before the Collector (Appeals) and later a complaint with the Federal Tax Ombudsman (FTO) were rejected. Currently, appeals before the Customs, Federal Excise and Sales Tax Appellate Tribunal and the Central Board of Revenue are pending adjudication.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

16. Property, plant and equipment

16.1 The following is a statement of property, plant and equipment:

(Rupees in thousand)

	Cost as at July 1, 2006	Additions/ (deletions)/ adjustments*	Cost as at June 30, 2007	Accumulated depreciation as at July 1, 2006	Depreciation for the year/ (on disposals) adjustments*	Accumulated depreciation as at June 30, 2007	Net book value as at June 30, 2007	Annual rate of depreciation %
Land								
– Freehold	1,626,631	15,898	1,642,529	–	–	–	1,642,529	–
– Leasehold	236,040	104,115	340,155	67,816	21,009	88,825	251,330	1-10
Buildings								
– Freehold	9,148,611	420,118	9,568,729	2,232,997	230,472	2,463,469	7,105,260	2.5
– Leasehold	1,009,184	–	1,009,184	298,923	27,236	326,159	683,025	2.5
Lines and wires	95,145,624	3,559,357	98,704,981	60,797,332	5,493,801	66,291,133	32,413,848	7
Apparatus plant and equipment	124,124,636	12,875,352 (692,774)	136,307,214	73,745,300	8,964,356 (689,268)	82,020,388	54,286,826	10-20
Office equipment	815,362	79,026 (612)	893,776	352,612	83,366 (483)	435,495	458,281	10
Furniture and fixtures	420,852	20,804 (922)	440,734	265,128	30,330 (632)	294,826	145,908	6-10
Vehicles	1,467,148	385,378 (45,666)	1,806,860	1,252,710	148,763 (44,799)	1,356,674	450,186	20-25
Others	243,714	366,110 (2,503)	607,321	113,688	114,798 (1,964)	226,522	380,799	10-33
June 30, 2007	234,237,802	17,826,158 (742,477)	251,321,483	139,126,506	15,114,131 (737,146)	153,503,491	97,817,992	
June 30, 2006	207,930,312	26,441,366 (1,666,908) 1,533,032*	234,237,802	126,689,472	13,468,077 (1,492,109) 461,066*	139,126,506	95,111,296	

16.2 The property and rights in the holding company's assets at January 1, 1996 were transferred to the group from Pakistan Telecommunication Corporation under the Pakistan Telecommunication (Reorganization) Act, 1996. However, the title to such freehold land was not formally transferred in the name of the holding company in the land revenue records. The group initiated the process of transfer of title of land in the holding company's name in previous year which is still ongoing and shall be completed in due course of time.

16.3 Disposal of property, plant and equipment

Details of certain property, plant and equipment disposed off during the year are as follows:

Particulars of the assets / sold to	Mode of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds
(Rupees in thousand)					
Apparatus and Plant					
EMD Exchange					
Mr Abdul Hameed	Tender	4,471	2,012	2,459	318

The remaining property, plant and equipment disposed off during the year had a book value of less than Rs 50,000.



	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
17. Capital work-in-progress		
This consists of:		
Buildings	219,725	466,474
Lines and wires	4,880,823	5,037,598
Apparatus, plant and equipment	12,861,035	9,671,138
	<u>17,961,583</u>	<u>15,175,210</u>

18. Assets subject to finance lease

	(Rupees in thousand)							
	Cost as at July 1, 2006	Additions/ (deletions)	Cost as at June 30, 2007	Accumulated amortisation as at July 1, 2006	Amortisation for the period/ (on disposals)	Accumulated amortisation as at June 30, 2007	Net book value as at June 30, 2007	Annual rate of amortisation %
Vehicles								
June 30, 2007	13,813	-	13,813	4,835	3,995	8,830	4,983	25
June 30, 2006	<u>13,813</u>	<u>-</u>	<u>13,813</u>	<u>840</u>	<u>3,995</u>	<u>4,835</u>	<u>8,978</u>	<u>25</u>

19. Intangible assets

	Cost as at July 1, 2006	Additions/ (deletions) (adjustments)*	Cost as at June 30, 2007	Accumulated amortisation as at July 1, 2006	Amortisation for the year/ (on disposals)	Accumulated amortisation as at June 30, 2007	Net book value as at June 30, 2007
License							
PTCL – note 19.1 and 19.2 – note 9.1	4,527,983	9,900 (631,756)*	3,906,127	479,107	196,278	675,385	3,230,742
PTML – note 19.3	915,591	-	915,591	187,645	61,237	248,882	666,709
Paknet – note 19.4	1,250	-	1,250	349	103	452	798
June 30, 2007	<u>5,444,824</u>	<u>9,900</u> <u>(631,756)*</u>	<u>4,822,968</u>	<u>667,101</u>	<u>257,618</u>	<u>924,719</u>	<u>3,898,249</u>
June 30, 2006	<u>4,924,110</u>	<u>520,714</u>	<u>5,444,824</u>	<u>418,904</u>	<u>248,197</u>	<u>667,101</u>	<u>4,777,723</u>

19.1 The Pakistan Telecommunication Authority (PTA) has issued a license to the Pakistan Telecommunication Company Limited to provide telecommunication services in Pakistan for a period of 25 years commencing January 1, 1996 for an agreed license fee of Rs 249,344 thousand. During the year ended June 30, 2005 the PTA modified the previously issued license to provide telecommunication services to include spectrum license at an agreed license fee of Rs 4,278,639 thousand. This license allows Pakistan Telecommunication Company Limited to provide Wireless Local Loop services in Pakistan over a period of 20 years commencing October 2004. The cost of the license is being amortised on straight line basis over the period of the license.

19.2 PTCL acquired the IPTV license from PEMRA on October 1, 2006 for the agreed price of Rs. 9,900 thousand. The cost of license is being amortized on straight line basis over the period of 5 years.

19.3 PTA has issued a license to Pakistan Telecom Mobile Limited for a period of fifteen years commencing May 1999. The cost is being amortised on straight line basis over the period of the license.

19.4 PTA has issued licenses for Electronic Information Services, Data Communication Network, Cable television and store and forward fax services for periods ranging five to fifteen years. The cost of licenses is being amortised on straight line basis over the period of licenses.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
20. Long term investments		
Associated – unquoted		
Telecom Foundation Pipes Limited		
1,658,520 (2006: 1,658,520) ordinary shares of Rs 10 each Equity held 40% (2006: 40%)		
Cost	23,539	23,539
Post acquisition profits brought forward	5,607	7,427
Balance as at June 30, 2007	29,146	30,966
Other investments		
Available for sale -unquoted		
New ICO Global Communications (Holdings) Limited		
218,207 (2006: 218,207) shares of US \$ 0.01 per share (Chief Executive; Mr. Bryan)	–	–
– note 20.1		
Alcatel Pakistan Limited		
2,000,000 (2006: 2,000,000) ordinary shares of Rs 10 each (Chief Executive; Mr. Taylor)	20,000	20,000
World Tel Assembly of Governors		
Participation Fund Investment of US \$ 100,000 (2006: US \$ 100,000)	6,390	6,390
Less: Impairment provision	(2,711)	(2,711)
	3,679	3,679
Thuraya Satellite Company		
3,670,000 (2006: 3,670,000) ordinary shares of 1 Dirham each (Chief Executive; Mr. Yousuf Al Syed)	63,900	63,900
(SEA-ME-WE-3) Submarine Cable System		
SEA-ME-WE-3 Cost US \$ 60,386 thousand (2006: US \$ 51,986 thousand)		
Participating percentage 2.932786% (2006: 2.932786%)	3,743,255	3,232,343
Less: Amortisation	(1,446,191)	(1,159,058)
– note 20.2		
	2,297,064	2,073,285
(SEA-ME-WE-4) Submarine Cable System		
SEA-ME-WE-4 Cost US \$ 29,274 thousand (2006: US \$ 26,277 thousand)		
Participating percentage 6.1210% (2006: 6.1210%).	1,721,655	1,535,999
Less: Amortisation	(218,061)	(102,400)
– note 20.3		
	1,503,594	1,433,599
	3,917,383	3,625,429



- 20.1 New ICO Global Communications (Holdings) Limited acquired the assets of ICO Global Communications (Holdings) Limited, established in January 1995 to provide global mobile personal communication services by satellite. ICO Global Communications (Holdings) Limited was suspended from trading when the company filed for chapter 11 protection on August 27, 1999. The business was renamed New ICO Global Communications (Holdings) Limited following its emergence from Chapter 11 protection on May 16, 2000. According to the reorganization plan, the shareholders of ICO Global Communications (Holdings) Limited received one class A ordinary shares of US \$ 0.01 in New ICO Global Communications (Holdings) Limited for every 103.8 shares and an option to exchange one warrant of US \$ 90 for exchange with 13.84 shares at any time on or after May 16, 2000 (the effective date) on which the reorganization plan becomes effective until 5 p.m. New York City time, on May 17, 2006, which was extended by the company upto August 3, 2006. The group however had not exercised the option to exchange warrants.
- 20.2 The group is a member of a consortium for provision and maintenance of an optical fiber cable network linkup of South-East-Asia, Middle-East and Western-Europe. This represents the group's proportion of the aggregate cost incurred by the consortium on the network to June 30, 2006. The initial and any subsequent investment is being amortized over the useful life of the network which is estimated to be 15 years.
- 20.3 The group is a member of a consortium for provision of additional capacity for international communication to supplement the existing SEA-ME-WE-3 submarine cable. This represents the group's proportion of the aggregate cost incurred by the consortium on the network to June 30, 2006. The initial and any subsequent investment is being amortized over the useful life of the network which is estimated to be 15 years.

21. Long term loans – considered good

		June 30, 2007 (Rupees in thousand)	June 30, 2006
Loans to employees	– note 21.1	1,584,515	1,736,585
		1,584,515	1,736,585
Less: Current portion shown under current assets		(410,375)	(423,718)
		<u>1,174,140</u>	<u>1,312,867</u>

- 21.1 These loans and advances are for house building and purchase of motor cars, motor cycles and cycles. Loans to gazetted employees of the group, carry interest at the rate of 11% per annum (2006: 10.5% per annum), whereas, loans to other employees are interest free. The loans are recoverable in monthly installments spread over 5 to 10 years. These loans are secured against future pension payments of employees.

22. Stores and spares

		June 30, 2007 (Rupees in thousand)	June 30, 2006
Stores and spares		4,293,609	3,700,505
Less: Provision for obsolete stores		(414,403)	(264,826)
		<u>3,879,206</u>	<u>3,435,679</u>

- 22.1 These are under a first charge by way of hypothecation as security for certain borrowings referred to in note 7.1.

- 22.2 Stores and spares include items which may result in property, plant and equipment but are not distinguishable.

23. Stock-in-trade

		June 30, 2007 (Rupees in thousand)	June 30, 2006
Purchased goods- SIM and scratch cards		<u>270,464</u>	<u>227,417</u>

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
24. Trade debts		
Domestic		
Considered good	9,472,138	15,443,178
Considered doubtful	13,242,932	8,127,506
	22,715,070	23,570,684
International		
Considered good-unsecured	1,584,536	2,418,871
Considered doubtful	409,704	2,255,039
	1,994,240	4,673,910
Others		
Considered good-unsecured	486,820	329,784
Considered doubtful	102,102	63,600
	588,922	393,384
	25,298,232	28,637,978
Less: Provision for doubtful debts	(13,754,738)	(10,446,145)
	<u>11,543,494</u>	<u>18,191,833</u>

24.1 The above debts have been provided as security by first charge by way of hypothecation for certain borrowings referred to in note 7.1.

24.2 Debts written off against provision for doubtful debts during the year amount to Rs 3,037,272 thousand (2006: Rs 778,349 thousand).

24.3 Included in trade debts are amounts due from Etisalat – UAE, a related party, aggregating to Rs 184,009 thousand (2006: Rs 312,497 thousand). This amount is interest free and accrued in the normal course of business.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
25. Loans, advances, deposits, prepayments and other receivables		
Current portion of loans to employees – considered good – note 21	410,375	423,718
Advances to employees – considered good	12,658	6,548
Advances to suppliers and contractors – considered good	940,109	1,441,752
Due from Pakistan Telecommunication Employees Trust	569,880	584,252
Due from PTCL employees' GPF Trust	639,320	192,036
Due from Government of Pakistan against disposal of CTI / TIP	152,391	652,391
Deposits and prepayments	688,220	270,234
Accrued profit on bank deposits	579,462	504,602
Recoverable from tax authorities		
Central excise – note 15.7	466,176	466,176
Sales tax	731,716	672,731
Margin against Letters of Credit	148,216	164,603
Other receivables		
– considered good	958,348	806,890
– considered doubtful	26,559	26,559
	984,907	833,449
	6,323,430	6,212,492
Less: Provision for doubtful advances	(26,559)	(26,559)
	<u>6,296,871</u>	<u>6,185,933</u>



	June 30, 2007 (Rupees in thousand)	June 30, 2006
26. Cash and bank balances		
The balances were held at banks:		
– on deposit accounts including US \$ 408 thousand and Euro 31 thousand (2006: US \$ 905 thousand and Euro 4 thousand) – note 26.1	34,201,687	25,293,184
– on current accounts including US \$ 6,657 thousand (2006: US \$ 13,016)	1,022,337	825,467
In hand	34,361	49,052
	<u>35,258,385</u>	<u>26,167,703</u>

26.1 Included in balances at banks on deposit accounts is an amount of Rs NIL (2006: Rs 134,227 thousand) which was under lien with the bank.

26.2 During the year the balances in deposit accounts earned mark up ranging from 1.5% to 13.2% per annum.

	June 30, 2007 (Rupees in thousand)	June 30, 2006
27. Revenue		
Telecommunication services	86,352,033	84,125,013
Less: Trade discount	(4,945,324)	(4,037,275)
	<u>81,406,709</u>	<u>80,087,738</u>
Others	–	290,326
	<u>81,406,709</u>	<u>80,378,064</u>

27.1 Revenue is exclusive of excise duty amounting to Rs 7,951,768 thousand (2006: Rs 8,519,150 thousand), sales tax amounting to Rs 2,764,000 thousand (2006: 1,723,000 thousand) and interconnect amount relating to other operators aggregating to Rs.12,393,701 thousand (2006: Rs 15,159,325).

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
28. Operating cost		
Cost of prepaid cards	325,713	202,255
Salaries, allowances and other benefits – note 28.1	15,001,690	15,359,623
Foreign operators cost and satellite charges	2,386,648	2,585,393
Network operating cost	2,029,594	1,145,544
International bandwidth charges, local lead and optic fiber charges	9,931	7,168
Customer acquisition cost	3,841,487	2,825,736
Travelling and conveyance	181,357	201,633
Advertisement and publicity	1,349,167	1,080,711
Fuel and power	2,317,325	2,142,801
Communication	98,453	118,109
Legal and professional services – note 28.2	154,262	158,431
Stores and spares consumed – note 28.3	2,271,693	3,331,506
Rent, rates and taxes – note 28.4	870,276	1,480,332
Repairs and maintenance	1,188,337	1,129,057
Printing and stationery	306,581	249,118
Depreciation and amortisation – note 28.5	15,778,562	14,098,452
Annual license fee	359,495	418,933
Royalty	288,643	166,198
Bad debts written off	533,597	49,791
Research and development – note 28.6	616,559	727,476
Provision for impairment of investment	–	2,711
Technical services fee – note 28.7	2,056,601	–
Provision for obsolete stores	303,257	–
Provision for doubtful debts	6,336,509	1,592,882
Provision for doubtful advances	–	25,287
	6,336,509	1,618,169
Donations	–	49,069
Other expenses	1,678,485	1,800,079
	60,284,222	50,948,295
Less: Cost allocated to fixed capital expenditure	(1,000,233)	(1,064,590)
	<u>59,283,989</u>	<u>49,883,705</u>

28.1 Included in salaries, allowances and other benefits are the following in respect of employee retirement benefits for the year.

	(Rupees in thousand)						Total	
	Pension		Gratuity		Accumulating compensated absences	Post employment medical facility	June 30, 2007	June 30, 2006
	funded	undunded	funded	undunded			June 30, 2007	June 30, 2006
Current service cost	1,144,259	132,940	–	76,054	25,324	147,789	1,526,366	1,623,994
Interest cost	2,827,214	94,551	–	16,610	158,268	412,547	3,509,190	3,305,550
Contribution from deputationists	(3,648)	–	–	–	–	–	(3,648)	(4,420)
Transitional liability recognised on application of IAS – 19	–	–	–	–	–	–	–	2,294
Expected return on plan assets	(3,531,918)	–	–	–	–	–	(3,531,918)	(3,081,727)
Actuarial (gain)/loss	(396,341)	9,023	–	1,030	30,993	(248,931)	(604,226)	(723,893)
	<u>39,566</u>	<u>236,514</u>	<u>–</u>	<u>93,694</u>	<u>214,585</u>	<u>311,405</u>	<u>895,764</u>	<u>1,121,798</u>



28.2 Auditors' remuneration

The charges for legal and professional services include the following in respect of auditors' services for the group:

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
Statutory audit	6,820	6,510
Half yearly review and special audit	2,765	2,538
Out of pocket expenses	205	223
	9,790	9,271

28.3 This includes Rs 1,685,276 thousand (2006:Rs 2,826,602 thousand) being the cost of WLL terminals provided to customers during the year. It also includes stores written off during the year amounting to Rs 85,521 thousand (2006: NIL).

28.4 This includes co-location charges of Rs 116,102 thousand (2006: Rs 991,125) payable to NTC for the current year.

28.5 Depreciation and amortization includes amortization of license fee Rs 257,618 thousand (2006: Rs 248,197 thousand), deferred cost of Rs NIL (2006: Rs 39,737 thousand) and investment in SEA-ME-WE of Rs 402,794 thousand (2006: Rs 332,765 thousand).

28.6 This represents group's contribution to Information Communication Technology (ICT) Research and Development Fund at the rate of 1% of its gross revenue less inter operator payments and payments towards research and development activities in Pakistan in accordance with the terms and conditions of its license to provide telecommunication services.

28.7 This represents amount payable to Emirates Telecommunication Corporation (Etisalat), a related party, under a technical service agreement between the company and Etisalat for a period of five years commencing October 1, 2006 at the rate of 3.5% of group's consolidated revenue subject to a maximum of US \$ 50,000 thousand for each year.

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
29. Non-operating income		
Income from financial assets:		
Mark up on loans and advances	18,376	41,642
Dividend income	–	7,176
Return on deposits	3,355,946	2,235,764
Late payment surcharge from subscribers on over due bills	579,296	591,229
Net exchange gain	55,003	54,427
Liabilities written back no longer considered necessary	279,677	–
Security deposits written back	499,125	–
Interest on balance with PTA against WLL license fee	90,046	–
Income from assets other than financial assets:		
Profit on sale of property, plant and equipment	38,427	50,003
Reversal of excess tax provision for royalty payment	–	10,000
Gain on disposal of subsidiaries	–	803,071
Others	562,792	542,847
	5,478,688	4,336,159

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007	June 30, 2006
	(Rupees in thousand)	
30. Finance cost		
Interest and other charges on Suppliers' credit and other long term borrowings	1,238,362	634,690
Mark-up and other charges on short term borrowings	41,598	60,462
Interest on employees' retirement benefits	-	879
Imputed interest on license fee	127,478	-
Bank and other charges	472,591	381,315
	<u>1,880,029</u>	<u>1,077,345</u>
31. Provision for taxation		
For the year		
Current	9,121,818	10,414,219
Deferred	(202,764)	1,174,746
	8,919,054	11,588,965
Proir year		
Current	(1,340,543)	(748,268)
Deferred	1,342,753	414,556
	2,210	(333,712)
Group	8,921,264	11,255,253
Associated	223	1,352
	<u>8,921,487</u>	<u>11,256,605</u>

32. Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged in the financial statements for the year ended June 30, 2007 in respect of remuneration, including certain benefits to the Chairman, Chief Executive and Executives of the company is as follows:

	Chairman		Chief Executive			Executives	
	June 30 2007	June 30 2006	March 9 2007 to June 30 2007	July 1 2006 to March 8 2007	June 30 2006	June 30 2007	June 30 2006
Number of persons	1	1	1	1	1	226	149
	(Rupees in thousand)						
Managerial remuneration	-	-	9,098	39,617	18,807	622,660	206,914
Honorarium	300	325	-	-	-	-	-
Bonus	-	-	-	-	500	1,580	2,945
Contribution to pension fund and gratuity	-	-	-	-	1,690	33,096	12,415
Housing	-	-	1,444	-	742	210,546	56,510
Utilities	-	-	-	-	1,539	36,657	16,380
	<u>300</u>	<u>325</u>	<u>10,542</u>	<u>39,617</u>	<u>23,278</u>	<u>904,539</u>	<u>295,164</u>

The group also provides free medical, free transport and limited residential telephone facility to all its Executives and the Chief Executive. The Chairman is entitled for free transport and limited residential telephone facility whereas the Directors are provided with limited telephone facility.

The aggregate amount charged in the financial statements for the year includes Rs 520 thousand (2006: Rs 475 thousand) as fee for 8 directors (2006: 12 directors) for attending board and its sub-committee meetings. The Chairman, Chief Executive Officer and Mr Noor-ud-Din Baqai (Director) were not paid the fee for attending board and its sub-committee meetings.

33. Rates of exchange

Assets and liabilities in foreign currencies have been translated into Rupees at the following exchange rates:

			2007	2006
US \$ 1	Buying Rate	= Rupees	60.4000	60.1500
US \$ 1	Selling Rate	= Rupees	60.6000	60.3500

June 30,
2007 June 30,
2006
(Rupees in thousand)

34. Cash flow from operating activities

Cash generated from operations

Profit before taxation			25,722,225	33,757,174
Add/(less) adjustments for non cash charges and other items:				
Depreciation/amortisation of property plant and equipment			15,118,150	13,477,753
Amortisation of investment			402,794	332,765
Amortisation of intangible assets			257,618	248,197
Amortisation of deferred cost			–	39,737
Provision for doubtful advances			80	25,287
Provision for doubtful debts			6,336,509	1,592,882
Provision for obsolete stores and stocks			303,257	2,612
Employee retirement benefits			895,764	1,121,798
Impairment on investment			–	2,711
Bad debts			533,597	49,791
Profit on sale of property, plant and equipment			(38,427)	(50,003)
Return on investments			–	(11)
Dividend income			–	(7,176)
Return on deposits			(3,355,946)	(2,235,764)
Provisions/liabilities no longer considered necessary written back			(279,677)	–
Security deposits written back			(499,125)	–
Interest and mark-up expenses			1,407,438	695,152
Interest on employee's retirement benefits			–	879
Working capital changes		– note 34.1	1,426,077	5,056,791
			<u>48,230,334</u>	<u>54,110,575</u>

34.1 Working capital changes

(Increase)/decrease in current assets				
Stores and spares			(746,784)	(82,526)
Stock in trade			(43,047)	620,429
Trade debts			(923,445)	(2,090,109)
Loans and advances			(49,501)	908,225
Increase in current liabilities				
Trade and other payables			3,188,854	5,700,772
			<u>1,426,077</u>	<u>5,056,791</u>

34.2 Cash and cash equivalents

Cash and bank balances		– note 26	35,258,385	26,167,703
Short term borrowings		– note 14	(3,674,630)	(4,036,745)
Cash and cash equivalents			<u>31,583,755</u>	<u>22,130,958</u>

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

	June 30, 2007 Numbers	June 30, 2006 Numbers
35. Capacity		
Access lines installed (ALI)	9,001,689	8,304,964
Access lines in service (ALIS)	5,569,016	5,714,469

ALI represents switching lines. ALI include 195,012 (2006: 189,676) and ALIS include 113,640 (2006: 114,985) Primary Rate Interface and Basic Rate Interface respectively. ALI and ALIS also include 2,518,700 (2006: 2,298,400) and 894,135 (2006 : 574,184) WLL connections respectively.

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

ALI does not include 180,124 lines (2006: 185,338 lines) relating to mechanical exchanges which are redundant and are being disposed off.

	June 30, 2007	June 30, 2006
36. Earnings per share		
36.1 Basic earnings per share		
Profit after taxation (Rupees in thousand)	16,800,738	22,500,569
Number of ordinary shares issued and subscribed at the end of the year	5,100,000,000	5,100,000,000
Earnings per share (Rupees)	3.29	4.41

36.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the group as the group has no such commitments.

37. Financial assets and liabilities

	Interest / Mark-up Bearing		Non Interest Bearing		(Rupees in thousand)	
	Maturity upto one year	Maturity within one year to five years	Maturity upto one year	Maturity within one year to five years	June 30, 2007	June 30, 2006
	Sub Total	Sub Total	Sub Total	Sub Total		
Financial assets						
Long term investments	-	-	-	87,579	87,579	87,579
Loans to employees	40,962	122,555	369,413	1,051,585	1,584,515	2,786,585
Trade debts	-	-	11,543,494	-	11,543,494	16,389,767
Loans, advances, deposits and other receivables	-	-	2,899,401	-	2,899,401	4,542,237
Cash and bank balances	34,201,687	-	1,056,698	-	35,258,385	26,167,703
	<u>34,242,649</u>	<u>122,555</u>	<u>15,869,006</u>	<u>1,139,164</u>	<u>51,373,374</u>	<u>49,973,871</u>
Financial liabilities						
Long term loans and other borrowings	1,440,030	10,348,250	-	-	11,788,280	12,130,316
Payable to PTA against license fee	-	-	-	1,768,681	1,768,681	193,624
Liabilities against assets subject to finance lease	3,635	2,231	-	-	5,866	9,275
Long term security deposits from subscribers	-	-	-	1,587,805	1,587,805	2,743,681
Other long term liabilities	-	-	-	4,138,063	4,138,063	1,500,000
Trade and other payables	-	-	14,506,286	6,776,228	21,282,514	19,471,572
Interest and markup accrued	-	-	21,490	-	21,490	26,250
Short-term borrowings	1,528,682	-	2,145,948	-	3,674,630	4,036,745
	<u>2,972,347</u>	<u>10,350,481</u>	<u>16,673,724</u>	<u>14,270,777</u>	<u>44,267,329</u>	<u>40,111,463</u>

The group has no financial asset or liability having maturity after five years.

The effective interest/mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

Notes to the Consolidated Financial Statements for the year ended June 30, 2007

37.1 Financial risk management objectives

The group finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the group's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

(a) Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in interest rates. The group has long term financing agreements with suppliers which are subject to interest rate risk as disclosed in note 7.

(b) Foreign exchange risk management

The group has certain loans and receivables to be settled in foreign currency. In addition it also has certain foreign currency investments. The group's exposure to currency risk is considered to be minimum.

(c) Credit risk

The group's credit risk is primarily attributable to its trade receivables and balances at bank. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The group has no significant concentration of credit risk as exposure is spread over a large number of counter parties and subscribers in the case of trade debts. Out of the financial assets aggregating Rs 51,373,374 thousand (2006:Rs 49,973,871 thousand), the financial assets which are subject to credit risk, amount to Rs 49,105,486 thousand (2006:Rs 46,073,937 thousand).

(d) Fair values of financial assets and liabilities

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

38. List of subsidiaries

Name of subsidiaries	Pak Telecom Mobile Limited	Paknet Limited
Country of incorporation	Pakistan	Pakistan
Percentage of holding of ordinary shares	100%	100%
Accounting year end	June 30, 2007	June 30, 2007

39. Events after the balance sheet date

The board has recommended to issue cash dividend of Rs 2 for each ordinary share of Rs 10 each.

40. Date of authorisation of financial statements

The financial statements were authorised for issue on September 14, 2007 by the Board of Directors of the group.

41. Corresponding figures

Corresponding figures have been rearranged, wherever necessary, for the purposes of comparison. During the year following significant rearrangements have been made for more appropriate presentation.

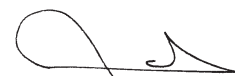
a) Reclassified due from National Telecommunication Corporation

From	To	(Rupees in thousand)
Loans, advances, deposits, prepayments and other receivables	Trade debts	1,802,066

b) Increase in:

- License fee payable	35,478
- Intangibles	35,478


Chairman


President & CEO

Annexes



Pattern of Shareholding as at June 30, 2007

NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
26685	1	100	2662258	0.0522
10136	101	500	3162501	0.0620
3158	501	1000	2785862	0.0546
3110	1001	5000	8112338	0.1591
685	5001	10000	5524402	0.1083
210	10001	15000	2726202	0.0535
145	15001	20000	2678200	0.0525
93	20001	25000	2220465	0.0435
66	25001	30000	1901100	0.0373
35	30001	35000	1152664	0.0226
34	35001	40000	1326700	0.0260
19	40001	45000	820800	0.0161
53	45001	50000	2607200	0.0511
18	50001	55000	955440	0.0187
18	55001	60000	1046275	0.0205
7	60001	65000	443500	0.0087
14	65001	70000	957300	0.0188
14	70001	75000	1034100	0.0203
9	75001	80000	702790	0.0138
5	80001	85000	419500	0.0082
13	85001	90000	1160000	0.0227
6	90001	95000	555700	0.0109
29	95001	100000	2891300	0.0567
3	100001	105000	307300	0.0060
6	105001	110000	652818	0.0128
4	110001	115000	453600	0.0089
6	115001	120000	713000	0.0140
8	120001	125000	990300	0.0194
1	125001	130000	129500	0.0025
4	130001	135000	530200	0.0104
4	135001	140000	554200	0.0109
2	140001	145000	287000	0.0056
13	145001	150000	1945500	0.0381
4	150001	155000	605119	0.0119
1	155001	160000	160000	0.0031
3	160001	165000	490000	0.0096
4	170001	175000	694000	0.0136
2	175001	180000	354731	0.0070
2	185001	190000	380000	0.0075
3	190001	195000	582100	0.0114
12	195001	200000	2390700	0.0469
2	200001	205000	405200	0.0079
1	205001	210000	210000	0.0041
1	215001	220000	216875	0.0043
1	220001	225000	225000	0.0044
2	225001	230000	456900	0.0090
1	230001	235000	235000	0.0046
1	235001	240000	235500	0.0046
3	240001	245000	731500	0.0143



NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
5	245001	250000	1250000	0.0245
2	255001	260000	515500	0.0101
1	270001	275000	271600	0.0053
1	275001	280000	275500	0.0054
1	285001	290000	290000	0.0057
2	290001	295000	586000	0.0115
1	300001	305000	304000	0.0060
5	345001	350000	1750000	0.0343
1	355001	360000	358500	0.0070
2	370001	375000	746000	0.0146
1	375001	380000	380000	0.0075
1	380001	385000	384388	0.0075
1	385001	390000	387330	0.0076
3	395001	400000	1200000	0.0235
2	405001	410000	815500	0.0160
2	425001	430000	853900	0.0167
2	435001	440000	877789	0.0172
1	440001	445000	442500	0.0087
2	495001	500000	1000000	0.0196
1	545001	550000	549000	0.0108
2	575001	580000	1158000	0.0227
1	585001	590000	589000	0.0115
1	590001	595000	592500	0.0116
2	595001	600000	1197400	0.0235
1	630001	635000	634400	0.0124
1	680001	685000	685000	0.0134
2	685001	690000	1374500	0.0270
1	690001	695000	690400	0.0135
2	745001	750000	1500000	0.0294
1	750001	755000	753062	0.0148
1	780001	785000	782000	0.0153
1	845001	850000	849000	0.0166
1	955001	960000	960000	0.0188
1	990001	995000	993000	0.0195
1	1010001	1015000	1014000	0.0199
1	1015001	1020000	1019500	0.0200
1	1055001	1060000	1057500	0.0207
1	1085001	1090000	1089500	0.0214
1	1115001	1120000	1119581	0.0220
2	1160001	1165000	2326500	0.0456
1	1300001	1305000	1302938	0.0255
1	1325001	1330000	1329000	0.0261
1	1355001	1360000	1355263	0.0266
1	1395001	1400000	1400000	0.0275
1	1455001	1460000	1457300	0.0286
1	1480001	1485000	1484040	0.0291
2	1495001	1500000	3000000	0.0588
1	1500001	1505000	1501000	0.0294
1	1520001	1525000	1525000	0.0299

Pattern of Shareholding as at June 30, 2007

NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
1	1595001	1600000	1600000	0.0314
1	1650001	1655000	1652500	0.0324
1	1875001	1880000	1875500	0.0368
2	1995001	2000000	4000000	0.0784
1	2005001	2010000	2008500	0.0394
1	2250001	2255000	2253500	0.0442
1	2330001	2335000	2331000	0.0457
1	2380001	2385000	2381000	0.0467
1	2405001	2410000	2406104	0.0472
1	2460001	2465000	2463500	0.0483
1	2480001	2485000	2481934	0.0487
2	2535001	2540000	5076500	0.0995
1	2795001	2800000	2800000	0.0549
1	2905001	2910000	2910000	0.0571
2	2920001	2925000	5845100	0.1146
1	3320001	3325000	3324000	0.0652
1	3345001	3350000	3347600	0.0656
1	3420001	3425000	3422500	0.0671
1	3430001	3435000	3433400	0.0673
1	3450001	3455000	3453000	0.0677
1	3490001	3495000	3494200	0.0685
1	3500001	3505000	3500300	0.0686
1	3520001	3525000	3522744	0.0691
1	3625001	3630000	3628873	0.0712
1	3995001	4000000	4000000	0.0784
1	4340001	4345000	4341799	0.0851
1	4495001	4500000	4496500	0.0882
1	4605001	4610000	4605500	0.0903
1	4620001	4625000	4625000	0.0907
1	4700001	4705000	4703880	0.0922
1	4910001	4915000	4912288	0.0963
1	5155001	5160000	5158500	0.1011
1	5215001	5220000	5217428	0.1023
1	5290001	5295000	5293000	0.1038
1	5300001	5305000	5304887	0.1040
1	5640001	5645000	5641500	0.1106
1	6155001	6160000	6157439	0.1207
1	6905001	6910000	6905500	0.1354
1	7055001	7060000	7059988	0.1384
1	7285001	7290000	7287412	0.1429
1	7395001	7400000	7399200	0.1451
1	11300001	11305000	11303500	0.2216
1	12050001	12055000	12050500	0.2363
1	12635001	12640000	12635200	0.2477
1	13830001	13835000	13831808	0.2712
1	25590001	25595000	25594333	0.5018
1	28040001	28045000	28041000	0.5498
1	37825001	37830000	37829500	0.7418
1	37885001	37890000	37888828	0.7429



NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
1	43150001	43155000	43154808	0.8462
1	49700001	49705000	49704790	0.9746
1	53815001	53820000	53816633	1.0552
1	196385001	196390000	196387991	3.8507
1	543745001	543750000	543746032	10.6617
1	782250001	782255000	782253968	15.3383
1	2974680001	2974685000	2974680002	58.3271
<u>44787</u>			<u>5100000000</u>	<u>100.000</u>

Categories of Shareholders as at June 30, 2007

Categories of Shareholders	No of Folios	SHAREHOLDING		Percentage
		"A" Class Ordinary Shares of Rs. 10 each	"B" Class Ordinary Shares of Rs. 10 each	
Government of Pakistan	5	3,172,735,193	–	62.2105
Etisalat International Pakistan LLC	2	–	1,326,000,000	26.0000
National Investment Trust	8	20,578,720	–	0.4035
Investment Corporation of Pakistan	3	5,300	–	0.0001
Banks, DFI & NBFIs	53	17,806,496	–	0.3491
Insurance Companies	14	57,637,279	–	1.1301
Modarabas & Mutual Funds	45	34,766,885	–	0.6817
Public Sector Cos. & Corp.	1	250,000	–	0.0049
Foreign Companies	88	335,260,042	–	6.5737
Associated Companies, Undertakings and Related Parties	–	–	–	–
Others	274	64,191,561	–	1.2587
General Public (Local)	43,819	69,909,519	–	1.3708
General Public (Foreign)	466	855,200	–	0.0168
Directors & CEO	6	105	–	0.0000
Executives	3	3,700	–	0.0001
	<u>44,787</u>	<u>3,774,000,000</u>	<u>1,326,000,000</u>	<u>100.0000</u>

Details of Categories of Shareholders as at June 30, 2007

Directors, CEO and their spouses and minor children		Shares Held
Mr. Abdulrahim A. Al Nooryani	Director	1
Mr. Abdulaziz A. Al Sawaleh	Director	1
Mr. Fadhil Al Ansari	Director	1
Mr. Abdulaziz H. Taryam	Director	1
Mr. Saood Al Junaibi	Director	1
Mr. Noor-ud-Din Baqai	Director	100
Total		105

Trade in PTCL Shares

The Directors, CEO, CFO, Company Secretary and their spouses and minor children have not traded in PTCL shares during the financial year 2006-2007.

National Investment Trust

National Investment Trust Ltd.	400
National Bank of Pakistan Trustee Wing	2,000
National Bank of Pakistan Trustee Wing	19,000
National Bank of Pakistan Trustee Wing	22,000
National Bank of Pakistan	1,484,040
National Investment Trust Limited	4,703,880
National Bank of Pakistan, Trustee Deptt.	7,059,988
National Bank of Pakistan, Trustee Deptt.	7,287,412
Total:	20,578,720

Investment Corporation of Pakistan

Investment Corporation of Pakistan	100
Investment Corporation of Pakistan	800
Investment Corporation of Pakistan	4,400
Total	5,300

Shareholders holding ten percent or more voting interest in the Company

President of Pakistan	7,300
President of Pakistan	7,400
President of Pakistan	1,652,500
President of Pakistan	196,387,991
President of Pakistan	2,974,680,002
Total:	3,172,735,193
Etisalat International Pakistan (LLC)	543,746,032
Etisalat International Pakistan (LLC)	782,253,968
Total:	1,326,000,000

Notice of 12th Annual General Meeting

Notice is hereby given that the 12th Annual General Meeting of Pakistan Telecommunication Company Limited will be held on Wednesday, October 31, 2007 at 10:30 a.m. at the S. A. Siddiqui Auditorium, Corporate Headquarters, Sector G-8/4, Islamabad, to transact the following business:

Ordinary Business

1. To confirm minutes of the 11th Annual General Meeting of the Company held on October 31, 2006.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2007 together with the Directors' and Auditors' reports thereon.
3. To approve and declare the final dividend of 20% (Rs. 2 per share) as recommended by the Board of Directors for the year ended June 30, 2007.
4. To appoint Auditors for the financial year ending June 30, 2008 and to fix their remuneration. The retiring Auditors M/s A. F. Ferguson & Co., Chartered Accountants and M/s KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

Special Business

5. To consider & if deemed appropriate, pass the following resolution with or without amendment:

“Resolved that the Board of Directors of the Company be and are hereby authorized to dispose of the Company's undertaking in the Paknet Limited (a wholly owned Subsidiary of the Company) by way of Winding Up”.

6. To transact any other business with the permission of the Chair.

The statement of special business under section 160(1)(b) of the Companies Ordinance, 1984 is also attached.

By Order of the Board



(Farah Qamar)

Company Secretary

Islamabad:

Dated: September 14, 2007

**Notes:**

1. Any member of the Company entitled to attend and vote at this meeting may appoint any person as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the Registered Office not later than 48 hours before the time fixed for holding the meeting.
2. The share transfer books of the Company will remain closed from October 20, 2007 to October 31, 2007 (both days inclusive). Transfers received at the share registrar office, M/s THK Associates (Pvt.) Ltd., Ground Floor, State Life Building No. 03, Dr. Ziauddin Ahmed Road, Karachi at the close of business on October 19, 2007 will be treated in time for the entitlement of final dividend to the transferees.
3. Members are requested to notify any change in address to our share registrar, M/s THK Associates (Pvt.) Ltd. at the address mentioned above.
4. Any individual Beneficial Owner of CDC, entitled to vote at this meeting, must bring original NIC with him/her to prove his/her identity, and in case of proxy, a copy of shareholder's attested NIC must be attached with the proxy form. Representatives of corporate members should bring the usual documents required for such purpose.

Statement under section 160(1) (b) of the Companies Ordinance, 1984

This statement sets out the material facts concerning special business to be transacted at the 12th Annual General Meeting of Pakistan Telecommunication Company Limited to be held on October 31, 2007.

The proposed special resolution regarding closure of winding up of Paknet, a wholly owned subsidiary of PTCL, through voluntary winding up is necessitated by the following factors:

1. Market demand for convergence of voice, data and video gave rise to PTCL's own recently acquired infrastructure and licensed capability for offering internet, Broadband and IPTV services. Having a subsidiary that operates as a separate business entity offering internet and data services, would not only result in competition between PTCL and its internet subsidiary and a duplication of Capex and Opex for the PTCL group, but would also cause confusion and duplication for its customers as the parent Company would be offering all the services (and many more) that the subsidiary is offering as standalone services.
2. Market demand for convergence of Internet with voice and video has resulted in non-viability of the standalone ISP and Internet business in Pakistan. Paknet, which only has the internet and data license and operates as an Internet and ISP business, would therefore have a non-viable future as a separate business entity.

Notice of 11th Annual General Meeting

Background

In the year 2000, Paknet was formed as an independent subsidiary of PTCL for providing internet related services across the country and has been the largest ISP in Pakistan having presence in 44 cities and towns. However Paknet's historical commercial focus and therefore its performance had been poor with accumulated losses of Rs 350 million by the end of 2005-06. Just before the beginning of 2006-07, a new management was put in place by the new Board of Directors to rectify the situation and come up with a way forward. In the wake of a poor balance sheet, the new management began the cleaning up of operations by reducing company's nine Network Operating Centers to two, making new market based inductions and approving an expansion in the broadband capacity from a mere 1500 to 15000 ports as a start. However in view of the struggling internet businesses in Pakistan (tariffs were dropped by as much as 70%), Paknet's historical negative brand equity and also the global convergence of voice, data and video, the Board of Directors and management of both the companies deliberated in detail over the strategic way forward for Paknet. All the pros and cons were weighed and eventually, following recommendation of Paknet Board in its 37th meeting, the PTCL Board in its 130th meeting decided that the best strategic option in the interest of the shareholders would be to bundle all the Internet and data related services with voice, which, then should be offered by PTCL on its own as a 'one stop shop'. This will also result in smooth transfer of the customers and the infrastructure reach of Paknet under the PTCL portfolio, while the operations of Paknet will be closed as an independent company. Both the customers and the large infrastructure of Paknet would add value to PTCL and save capex and customer acquisition costs.

Shareholders' Value

The year 2007-08 will therefore see a consolidated voice, data and video offering by PTCL, which would further enhance the PTCL brand and the shareholders' value. The accumulated loss of Paknet as on June 30, 2007 was Rs 451.500 million. This has continuously been reflected in the PTCL's shareholders' value historically. Following the transfer of assets and liabilities to PTCL, the net loss to PTCL according to June 30, 2007 accounts is 451.500 million inclusive of Rs 200.000 million equity. However the shareholders' value through internet services is expected to grow in the future due to increase in demand for the converged services.

The Directors of the Company have no direct or indirect interest in the Special Business.

Form of Proxy

I/we _____
of _____
being a member of Pakistan Telecommunication Company Limited, and a holder of _____
Ordinary Shares as per Share Register Folio No. _____ and / or CDC Participant I.D. No.
_____ hereby appoint Mr./ Mrs /Miss _____
of _____ as my/our proxy to vote for me/us and on my/our behalf at the Twelveth
Annual General Meeting of the Company to be held on Wednesday, October 31, 2007 at 10:30 am and at any adjournment thereof.

Signed this _____ day of _____ 2007.

For beneficial owners as per CDC List

Signature on
Rs.5/-
Revenue Stamp

1. Witness

Signature _____

Name: _____

Address: _____

NIC NO. -

or passport No. _____

2. Witness

Signature _____

Name: _____

Address: _____

NIC NO. -

or passport No. _____

Notes

- i) The proxy need not be a member of the Company.
- ii) The instrument appointing a proxy must be duly stamped, signed and deposited at the office of the Company Secretary PTCL, Corporate Headquarters, Sector G-8/4, Islamabad, not later than 48 hours before the time fixed for holding the meeting.
- iii) Signature of the appointing member should match with his/her specimen signature registered with the Company.
- iv) If a proxy is granted by a member who has deposited his / her shares into Central Depository Company of Pakistan Limited, the proxy must be accompanied with participant's ID number and account/subaccount number along with attested copies of the Computerized National Identity Card (CNIC) or the Passport of the beneficial owner. Representatives of corporate members should bring the usual documents required for such purpose.

AFFIX
CORRECT
POSTAGE

To
The Company Secretary
Pakistan Telecommunication Company Limited
Corporate Headquarters, Sector G-8/4,
Islamabad-44000

