KPMG Taseer Hadi & Co.
Chartered Accountants

**Universal Service Fund**

# Financial statements
For the year ended 30 June 2009

KPMG

**KPMG Taseer Hadi & Co.**
Chartered Accountants
Sixth Floor
State Life Building No. 5
Jinnah Avenue, Blue Area
Islamabad, Pakistan

Telephone +92 (51) 282 3558
Fax +92 (51) 282 2671
Internet www.kpmg.com.pk

## AUDITORS' REPORT TO THE MEMBERS OF UNIVERSAL SERVICE FUND

We have audited the annexed balance sheet of Universal Service Fund ("the Company") as at 30 June 2009 and the related income and expenditure account and cash flow statement 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account and cash flow statement together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2009 and of the surplus and its cash flows for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**ISLAMABAD**
02 OCT 2009

**KPMG TASEER HADI & CO.**
**CHARTERED ACCOUNTANTS**
*Engagement Partner:*
**Muhammad Rehan Chughtai**

Universal Service Fund
**Balance Sheet**
*As at 30 June 2009*

| | Note | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| Property and equipment- tangible | 4 | **12,938,501** | 17,552,128 |
| Intangible assets | 5 | **5,834,443** | 6,506,963 |
| Long term deposits | | **61,000** | 11,000 |
| **Total non-current assets** | | **18,833,944** | 24,070,091 |
| **Current assets** | | | |
| Advances, prepayments and other receivables | 6 | **7,562,446** | 5,988,290 |
| Profit on bank deposit | | **6,432,687** | 408,005 |
| Advance tax | | **220,188** | 111,569 |
| Cash and bank balance | 7 | **496,858** | 6,826,355 |
| **Total current assets** | | **14,712,179** | 13,334,219 |
| **Total assets** | | **33,546,123** | 37,404,310 |
| **LIABILITIES** | | | |
| Fund balance (restricted) | | **4,032,951** | 999,059 |
| Deferred grant | 8 | **18,772,944** | 24,059,091 |
| Deferred liability for staff retirement gratuity | 9 | **7,190,563** | 3,789,083 |
| **Current liabilities** | | | |
| Creditors accrued and other liabilities | 10 | **3,549,665** | 8,557,077 |
| **Total liabilities** | | **33,546,123** | 37,404,310 |
| **Commitments** | 15 | | |

The annexed notes 1 to 19 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors in its meeting held on 02 OCT 2009.

**Chief Executive** **Director**

**Universal Service Fund**
**Income and Expenditure Account**
***For the year ended 30 June 2009***

| | *Note* | **30 June 2009 Rupees** | 30 June 2008 Rupees |
|---|---|---|---|
| Administrative and general expenses | *11* | **(118,718,610)** | (107,751,782) |
| Deferred grant recognized | *8* | **7,893,949** | 5,957,718 |
| | | **(110,824,661)** | (101,794,064) |
| Transferred from fund balance | | **110,824,661** | 101,794,064 |
| | | **-** | - |

The annexed notes 1 to 19 form an integral part of these financial statements.

**Chief Executive**

**Director**

Universal Service Fund

Cash Flow Statement

*For the year ended 30 June 2009*

| | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|
| **Cash flows from operating activities** | | |
| Subsidy grant payment | **(1,573,995,722)** | (197,689,745) |
| Technical audit fee | **(21,950,492)** | - |
| Profit on bank deposit and other receipts | **5,072,137** | 1,870,434 |
| Cash payments to suppliers and employees | **(114,004,749)** | (97,434,728) |
| Advance taxes paid | **(108,619)** | (111,569) |
| *Net cash used in operating activities* | **(1,704,987,445)** | (293,365,608) |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | **(1,207,697)** | (12,230,569) |
| Proceeds from sale of property and equipment | **30,863** | 13,410 |
| Long term deposits | **(50,000)** | (5,000) |
| Purchase of intangible assets | **(1,430,968)** | (812,500) |
| *Net cash used in investing activities* | **(2,657,802)** | (13,034,659) |
| **Cash flow from financing activities** | | |
| Grant received | **1,701,315,750** | 288,640,999 |
| *Net cash flow from financing activities* | **1,701,315,750** | 288,640,999 |
| **Net decrease in cash and cash equivalents during the year** | **(6,329,497)** | (17,759,268) |
| **Cash and cash equivalents at beginning of the year** | **6,826,355** | 24,585,623 |
| **Cash and cash equivalents at end of the year** | **496,858** | 6,826,355 |

The annexed notes 1 to 19 form an integral part of these financial statements.

**Chief Executive**

**Director**

**Universal Service Fund**
**Statement of Changes in Fund Balance (restricted)**
***For the year ended 30 June 2009***

| | Note | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|
| Balance at beginning of the year | | **999,059** | 22,869,372 |
| Grant received during the year for: | | | |
| -operational and capital expenditure | | **104,245,776** | 91,040,999 |
| -subsidy grant payment | | **1,575,119,482** | 197,600,000 |
| -fee payment to technical auditor | | **21,950,492** | - |
| | | **1,701,315,750** | 288,640,999 |
| Profit on bank deposit and other receipts | 12 | **11,096,819** | 2,004,846 |
| | | **1,713,411,628** | 313,515,217 |
| Less: Transferred to income and expenditure account | | **(110,824,661)** | (101,794,064) |
| Transferred to deferred grant for capital expenditure -net of disposals | 8 | **(2,607,802)** | (13,032,349) |
| Subsidy grant payment | 13 | **(1,573,995,722)** | (197,689,745) |
| Fee payment to technical auditor | 14 | **(21,950,492)** | - |
| | | **(1,709,378,677)** | (312,516,158) |
| | | **4,032,951** | 999,059 |

The annexed notes 1 to 19 form an integral part of these financial statements.

**Chief Executive**

**Director**

# Universal Service Fund
## Notes to the Financial Statements
*For the year ended 30 June 2009*

### 1. STATUS AND OPERATIONS

The Universal Service Fund ("the Company") was incorporated in Pakistan as a public company (limited by guarantee and not having a share capital) under section 42 of the Companies Ordinance, 1984 on December 12, 2006 as a not for profit entity. The Company was formed under Section 10 of the Universal Service Fund Rules, 2006 ("the Rules"). The Company is domiciled in Islamabad.

Pursuant to Section 16 of the Rules, operations of the Company are funded by the Ministry of Information Technology, Government of Pakistan through Universal Service Fund ("the Fund"), a separate entity established under section 33A of Telecommunication Re-organization Act 1996. The primary objective of the Company is to plan, develop, finance and execute communication network projects and services to un-served or under-served areas of Pakistan as defined under Section 26 of the Rules mainly through disbursement of grants, received from Government of Pakistan, in the form of subsidy to selected contributor to the Fund for execution of the project.

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPERATION

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

### 2.1 Functional and presentation currency

These financial statements of the Company are presented in Pak Rupees, which is the Company's functional and presentation currency.

### 2.2 Significant estimates

The preparation of financial statements in accordance with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year mainly relate to the useful lives and residual values of property, plant and equipment and intangible assets. Any change in useful live and residual value will affect the depreciation/amortization charge in the year of change.

## 3 SIGNIFICANT ACCOUNTING PLICIES

The following accounting policies have been applied consistently in dealing with items that are considered material to the Company's financial statements.

### 3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for staff retirement defined benefit plan which is measured at present value

### 3.2 Property and equipment

These are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged using the straight-line method. The rates of depreciation are specified in note 4. Full month's depreciation is charged on property and equipment in the month of acquisition while depreciation is not charged in the month of disposal.

Renewals and replacements are recognized in the carrying amount of the property, plant and equipment if it is probable that future embodied economic benefits will flow to the Company. Other maintenance and repairs are charged during the year and included in the income and expenditure account. Gain or loss on disposal is taken to income and expenditure account.

### 3.3 Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment. Amortization is charged on a straight-line method at rates specified in note 5 over the useful life of the intangible asset and charged to the income and expenditure account.

### 3.4 Receivables

Receivables are stated at original invoice value as reduced by appropriate provision for impairment, if any. Known bad receivables are written off.

### 3.5 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and bank balances.

### 3.6 Grant/ Fund

Grant received for capital expenditure is transferred from fund balance and accounted for as deferred grant. An amount equal to the annual charge for depreciation and amortization on assets so acquired is recognized as income in the income and expenditure account. Amounts received for ongoing administrative expenses are recognized in fund. An amount equivalent to the expenses incurred during the year is transferred to income and expenditure account and the unspent amount remains in the fund balance.

### 3.7 Funds received for subsidy and subsidy grant payments

Amounts received from Government of Pakistan for subsidy to selected contributor to the fund for execution of the projects in un-served and underserved areas of Pakistan are initially recognized in the fund balance and adjustment is made on actual disbursement to the contributor. Any un-disbursed subsidy amount remains in the closing balance of the fund.

### 3.8 Provisions

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

### 3.9 Trade and other payables

Trade and other payables are carried at their amortized cost which is the fair value of the consideration to be paid in future for goods and services received.

### 3.10 Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated.

The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less cost to sell. An impairment loss is recognized if the carrying amount of an asset or a cash generating unit exceeds its estimated recoverable amount. Impairment losses/ reversal of impairment losses are recognized in income and expenditure account.

### 3.11 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to contractual provisions of the instrument. The Company de-recognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

### 3.12 Offsetting

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

### 3.13 Staff retirement gratuity

The Company operates an unfunded gratuity scheme for employees who have completed the minimum qualifying period of service to the Company. Provision for gratuity is made to cover obligations under the scheme in accordance with the actuarial recommendations. The latest actuarial valuation was carried out as at 30 June 2009 on the Projected Unit Credit Method based on the following significant assumptions:

| | |
|---|---|
| Discount rate | 12% per annum |
| Expected rate of increase in salary | 11% per annum |
| Average expected remaining working life time of the employee | 3 Years |

### 3.14 Taxation

The Company has applied for registration as nonprofit organization under the Income Tax Ordinance, 2001. The Company believes that owing to the nature of its operations exemption would be granted and accordingly, provision for taxation has not been made in these financial statements.

### 3.15 Initial application of IFRS

The Company has applied IFRS 7 "Financial instruments: Disclosures" which became applicable for the periods starting from July 1, 2008. This application has resulted in certain increased disclosures. However there was no impact in the reported figures of income and expenditure account.

### 3.16 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Company's financial statements.

- Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) –

Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Company's financial statements.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Company's financial statements.

- Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Company loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

- IFRS 8 – Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. This standard will have no effect on the Company's reported total profit or loss or equity.

- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.

- IFRIC 16- Hedge of Net Investment in a Foreign Operation. (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the Company except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Company's operations.

- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2009 financial statements. These amendments are unlikely to have an impact on the Company's financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009 clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Company's financial statements.

- IAS 27 'Consolidated and separate financial statements' effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Company's financial investments.

- IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a Company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

- IFRS 5 Amendment - Improvements to IFRSs - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met disclosures for discontinued operations would be required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not likely to have an effect on Company's financial statements.
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

- IAS 23 (Amendment), 'Borrowing costs'. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures'). An investment in associate is treated as a single asset for the purposes of impairment testing.

- IAS 36 (Amendment), 'Impairment of assets'. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

- IAS 38 (Amendment), 'Intangible assets'. A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

- IAS 19 (Amendment), 'Employee benefits'. The amendment among other things clarifies treatments in case of plan amendments and modifies definition of return on plan assets.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'. This amendment among other things clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- IAS 1 (Amendment), 'Presentation of financial statements'. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively.

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting'.

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows'). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

- IAS 27 (Amendment), 'Consolidated and separate financial statements'. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-for-sale and discontinued operations', IAS 39 would continue to be applied.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'). Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'.

- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation', and IFRS 7 'Financial instruments: Disclosures'.

- IAS 38 (Amendment), 'Intangible assets'. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortization than the straight-line method.

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value.

- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value.

- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'. The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20.

- IFRIC 18 Transfers of Assets from Customers (effective from 1 July 2009). It provides accounting guidance on transfers of property, plant and equipment (or cash to acquire it) for entities that receive such contributions from their customers.

## 4 PROPERTY AND EQUIPMENT- TANGIBLE

| | Vehicles | Furniture and equipment | Computers and accessories | Communication equipment | Capital work in progress | Total |
|---|---|---|---|---|---|---|
| | | | Rupees | | | |
| **Cost** | | | | | | |
| Balance as of 1 July 2007 | 5,177,000 | 65,018 | 2,226,698 | 333,517 | 1,962,000 | 9,764,233 |
| Additions during the year | 6,701,363 | 418,830 | 6,786,616 | 288,450 | 4,679,000 | 18,874,259 |
| Disposals | - | (8,200) | (5,500) | | (6,641,000) | (6,654,700) |
| Balance as of 30 June 2008 | 11,878,363 | 475,648 | 9,007,814 | 621,967 | - | 21,983,792 |
| **Balance as of 01 July 2008** | **11,878,363** | **475,648** | **9,007,814** | **621,967** | - | **21,983,792** |
| **Additions during the year** | **117,394** | **870,138** | **48,100** | **172,065** | - | **1,207,697** |
| ***Disposals*** | - | - | - | **(43,500)** | - | **(43,500)** |
| **Balance as of 30 June 2009** | **11,995,757** | **1,345,786** | **9,055,914** | **750,532** | - | **23,147,989** |
| **Depreciation** | | | | | | |
| Balance as of 1 July 2007 | 86,283 | 1,084 | 61,847 | 5,559 | - | 154,773 |
| Charge for the year | 1,501,060 | 66,098 | 2,585,963 | 124,060 | - | 4,277,181 |
| Adjustment on disposals | - | (137) | (153) | | | (290) |
| Balance as of 30 June 2009 | 1,587,343 | 67,045 | 2,647,657 | 129,619 | - | 4,431,664 |
| **Balance as of 01 July 2008** | **1,587,343** | **67,045** | **2,647,657** | **129,619** | - | **4,431,664** |
| **Charge for the year** | **2,399,152** | **201,123** | **3,008,428** | **181,758** | - | **5,790,461** |
| ***Adjustment on disposals*** | - | - | - | **(12,637)** | - | **(12,637)** |
| **Balance as of 30 June 2009** | **3,986,495** | **268,168** | **5,656,085** | **298,740** | - | **10,209,488** |
| **Net book value as of 30 June 2009** | **8,009,262** | **1,077,618** | **3,399,829** | **451,792** | - | **12,938,501** |
| **Net book value as of 30 June 2008** | **10,291,020** | **408,603** | **6,360,157** | **492,348** | - | **17,552,128** |
| **Rates of depreciation - (%age)** | 20 | 20 | 33.33 | 20-33 | | |

## 5 INTANGIBLE ASSETS

| | Digital Maps | Softwares | Total |
|---|---|---|---|
| | | (Rupees) | |
| **Cost** | | | |
| Balance as of 1 July 2007 | 7,500,000 | - | 7,500,000 |
| Additions during the year | - | 812,500 | 812,500 |
| Balance as at 30 June 2008 | 7,500,000 | 812,500 | 8,312,500 |
| **Balance as of 01 July 2008** | **7,500,000** | **812,500** | **8,312,500** |
| **Additions during the year** | - | **1,430,968** | **1,430,968** |
| **Balance as of 30 June 2009** | **7,500,000** | **2,243,468** | **9,743,468** |
| **Amortization** | | | |
| Balance as of 1 July 2007 | 125,000 | - | |
| Amortization for the year | 1,500,000 | 180,537 | 1,680,537 |
| Balance as at 30 June 2008 | 1,625,000 | 180,537 | 1,805,537 |
| **Balance as of 01 July 2008** | **1,625,000** | **180,537** | **1,805,537** |
| **Amortization for the year** | **1,500,000** | **603,488** | **2,103,488** |
| **Balance as of 30 June 2009** | **3,125,000** | **784,025** | **3,909,025** |
| **Carrying amount as of 30 June 2009** | **4,375,000** | **1,459,443** | **5,834,443** |
| **Carrying amount as of 30 June 2008** | **5,875,000** | **631,963** | **6,506,963** |
| **Rates of amortization- (% age)** | 20 | 33.33 | |

| | | Note | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|---|
| **6** | **ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES** | | | |
| | Advances to contractors | | **124,012** | - |
| | Prepayments | | **5,875,658** | 5,330,276 |
| | Other receivables-unsecured | *6.1* | **1,562,776** | 658,014 |
| | | | **7,562,446** | 5,988,290 |

6.1 This represents expenses incurred on behalf of National Information Communication Technologies Research and Development Fund (an associated undertaking). This is interest free and recoverable on demand. The maximum exposure against this receivable is the carrying amount. This receivable is from an associated undertaking and the management therefore considers this receivable to be good.

| | | Note | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|---|
| **7** | **CASH AND BANK BALANCE** | | | |
| | Cash in hand | | **30,229** | 1,187 |
| | Cash at bank - local currency deposit account | *7.1* | **466,629** | 6,825,168 |
| | | | **496,858** | 6,826,355 |

7.1 Local currency deposit account carry interest ranging between 5% to 9% per annum. The maximum exposure is the carrying amount. Cash at bank is placed with a bank with strong credit rating and the management believes that credit risk is not significant.

| | | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|
| **8** | **DEFERRED GRANT** | | |
| | Opening balance | **24,059,091** | 16,984,460 |
| | Transferred from fund balance | **2,607,802** | 13,032,349 |
| | Less: Depreciation/amortization charged during the year | **(7,893,949)** | (5,957,718) |
| | Closing balance | **18,772,944** | 24,059,091 |

Up to the year end, the Company has utilized Rs. 32.90 million (30 June 2008: Rs. 30.29 million) out of the grant received for capital expenditures.

| | | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|
| **9** | **DEFERRED LIABILITY FOR STAFF RETIREMENT GRATUITY** | | |
| | Present value of defined benefit obligation | **7,190,563** | 3,789,083 |
| | **Charge for defined benefit plan** | | |
| | Current service cost | **4,586,099** | 3,010,698 |
| | Interest cost | **454,690** | 5,543 |
| | Past service cost | - | (109,187) |
| | Actuarial (gain)/loss | **(1,184,856)** | 726,650 |
| | | **3,855,933** | 3,633,704 |

| Movement in the liability for defined benefit plan | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|
| Present value of defined benefits | 3,789,083 | 155,379 |
| Expense for the year | 3,855,933 | 3,633,704 |
| Balance available | 7,645,016 | 3,789,083 |
| Payments made during the year | (454,453) | - |
| Balance at the year end | 7,190,563 | 3,789,083 |

**Comparison of the present value of defined benefit obligation for the current and previous two years**

| | Amount in Pak Rupees | | |
|---|---|---|---|
| | **30 June 2009** | 30 June 2008 | 30 June 2007 |
| Present value of defined benefit obligation | **7,190,563** | 3,789,083 | 155,379 |
| Experience adjustments | (1,184,856) | 726,650 | - |

Expected change for the next year is 5,757,424.

## 10 CREDITORS, ACCRUED AND OTHER LIABILITIES

| | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|
| Payable to suppliers | **1,703,534** | 6,723,206 |
| Accrued expenses | **849,070** | 928,109 |
| Other liabilities | **997,061** | 905,762 |
| | **3,549,665** | 8,557,077 |

## 11 ADMINISTRATIVE AND GENERAL EXPENSES

| | Note | | |
|---|---|---|---|
| Salaries and benefits | *11.1* | **58,428,760** | 52,324,463 |
| Legal and professional charges | | **23,771,110** | 1,969,049 |
| Rent | | **8,490,900** | 8,184,000 |
| Office supplies | | **996,828** | 1,253,040 |
| Communication charges | | **2,052,660** | 1,565,129 |
| Entertainment | | **266,114** | 190,740 |
| Traveling | | **1,591,416** | 1,376,204 |
| Printing and stationery | | **307,091** | 593,403 |
| Vehicle fuel expenses | | **2,642,108** | 1,864,173 |
| Repairs and maintenance | | **740,023** | 1,382,180 |
| Advertisement | | **10,841,187** | 30,651,166 |
| Depreciation | | **5,790,461** | 4,277,181 |
| Amortization of intangible asset | | **2,103,488** | 1,680,537 |
| Auditors' remuneration | | **225,000** | 150,000 |
| Insurance expense | | **461,586** | 284,196 |
| Bank charges | | **9,878** | 6,321 |
| | | **118,718,610** | 107,751,782 |

11.1 Salaries and benefits include Rs.3,855,933 ( 30 June 2008: Rs. 3,633,704 ) charged in respect of staff gratuity.

## 12 PROFIT ON BANK DEPOSIT AND OTHER RECEIPTS

As per the understanding, profit on bank deposit and other receipts are adjusted against future funding from Ministry of Information Technology Government of Pakistan and accordingly they are included in the fund balance.

## 13 SUBSIDY GRANT PAYMENTS

This represents the following:

| | Note | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|
| Telenor Pakistan (Private) Limited (Telenor) | 13.1 | - | 62,029,745 |
| Pakistan Mobile Communications Limited (PMCL) | 13.2 | 44,920,000 | 22,460,000 |
| Warid Telecom (Private) Limited (Warid) | 13.3 | 36,400,000 | 18,200,000 |
| Pakistan Telecommunication Company Limited (PTCL) | 13.4 | - | 35,000,000 |
| Pakistan Telecommunication Company Limited (PTCL) | 13.5 | - | 60,000,000 |
| Pakistan Telecommunication Company Limited (PTCL) | 13.6 | 100,000,000 | - |
| Telenor Pakistan (Private) Limited (Telenor) | 13.7 | 99,352,746 | - |
| Alshifa Trust-Rawalpindi-Special Project | 13.8 | 24,025,063 | - |
| Telenor Pakistan (Private) Limited (Telenor) | 13.9 | 186,000,000 | - |
| Wateen Telecom | 13.10 | 89,800,000 | |
| Wateen Telecom & PTCL | 13.11 | 286,152,000 | |
| Pakistan Telecommunication Company Limited (PTCL) | 13.12 | 45,600,000 | |
| Wateen Telecom | 13.13 | 74,800,000 | |
| Pakistan Foundation Fighting Blindness-PFFB -Special Project | 13.14 | 4,825,989 | - |
| Pakistan Telecommunication Company Limited (PTCL) | 13.15 | 232,208,800 | - |
| Pakistan Telecommunication Company Limited (PTCL) | 13.16 | 109,911,124 | - |
| Pakistan Telecommunication Company Limited (PTCL) | 13.17 | 240,000,000 | - |
| | | 1,573,995,722 | 197,689,745 |

13.1 Pursuant to Service and Subsidy agreement dated 04 October 2007 between the Company and Telenor for setting up telecommunication networl facilities in unserved and underserved areas of Malakand Division an advance payment of Rs. 62,029,745 out of the total approved contribution o Rs. 310,148,725 was made in FY 2007-08 . The remaining subsidy amount will be paid in 4 equal installments upon achievement of each of projec implementation milestone defined in the agreement. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarante of Rs. 124.06 million from Telenor.

13.2 Pursuant to Service and Subsidy agreement dated 15 January 2008 between the Company and PMCL for setting up telecommunication networl facilities in unserved and underserved areas of Sukkur Division, an advance payment of Rs. 22,460,000 out of the total approved contribution of Rs 112,300,000 was made in FY 2007-08 .During the year an amount of Rs. 44,920,000 was paid against two milestones achieved during the yea Pursuant to the terms of the agreement, the Company has obtained an irrevocable bank guarantee of Rs. 44.92 million from PMCL. Terms for th payment of subsidy are similar to those explained in note 13.1.

13.3 Pursuant to Service and Subsidy agreement dated 07 February 2008 between the Company and Warid for setting up telecommunication networ facilities in unserved and underserved areas of Dera Ghazi Khan Division, an advance payment of Rs. 18,200,000 out of the total approve contribution of Rs. 91,000,000 was made in FY 2007-08. During the year an amount of Rs. 36,400,000 was paid against two milestones achieve during the period. Pursuant to the terms of the agreement, the Company has obtained an irrevocable bank guarantee of Rs. 36.4 million from Waric Terms for the payment of subsidy are similar to those explained in note 13.1.

13.4 Pursuant to Service and Subsidy agreement dated 29 May 2008 between the Company and PTCL for setting up telecommunication network facilitie in unserved and underserved areas of Pishin Division, an advance payment of Rs. 35,000,000 out of the total approved contribution of R 175,000,000 was made in FY 2007-08 . Pursuant to the terms of the agreement, the Company has obtained an irrevocable bank guarantee of Rs. 7 million from PTCL. Terms for the payment of subsidy are similar to those explained in note 13.1.

13.5 Pursuant to Service and Subsidy agreement dated 24 June 2008 between the Company and PTCL for setting up telecommunication network facilitie in unserved and underserved areas of Mansehra Division, an advance payment of Rs. 60,000,000 out of the total approved contribution of R 300,000,000 was made in FY 2007-08 . Pursuant to the terms of the agreement, the Company has obtained an irrevocable bank guarantee of Rs. 12 million from PTCL. Terms for the payment of subsidy are similar to those explained in note 13.1.

13.6 Pursuant to Service and Subsidy agreement dated 25 July 2008 between the Company and PTCL for setting up telecommunication network facilities in unserved and underserved areas of Dadu Division, during the year Rs. 100,000,000 was paid against mobilization advance and achievement of 1st milestone out of the total approved contribution of Rs.250,000,000. Pursuant to the terms of the agreement, the Company has obtained an irrevocable bank guarantee of Rs. 100 million from PTCL.Terms for the payment of subsidy are similar to those explained in note 13.1.

13.7 Pursuant to Service and Subsidy agreement dated 22 September 2008 between the Company and Telenor for setting up telecommunication network facilities in unserved and underserved areas of Bahawalpur Division, during the year Rs. 99,352,746 was paid against mobilization advance and achievement of the 1st milestone out of the total approved contribution of Rs.248,381,865 . Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 99.35 million from PTCL. Terms for the payment of subsidy are similar to those explained in note 13.1.

13.8 This represents amount paid to Alshifa Eye Trust out of the total approved contribution of Rs. 24,756,910, pursuant to Service and Subsidy agreement dated 08 July 2008 and amendment to the agreement dated 04 November 2008 between the Company and Alshifa Trust for Special Project -ICT for Disabled- Establishment and Up gradation of Low Vision Rehabilitation Centers at Islamabad, Sukkur and Kohat. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 25.02 million from Alshifa Trust. The remaining subsidy is payable upon installation and submission of supporting documents, as defined in the agreement over a period of one year from the date of agreement

13.9 Pursuant to Service and Subsidy agreement dated 13 March 2009 between the Company and Telenor for setting up telecommunication network facilities in unserved and underserved areas of MirpurKhas, an advance payment of Rs. 186,000,000 out of the total approved contribution of Rs. Rs 930,000,000 was made. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 372 million from Telenor.Terms for the payment of subsidy are similar to those explained in note 13.1.

13.10 Pursuant to Service and Subsidy agreement dated 11 February 2009 between the Company and Wateen Telecom for setting up Optical Fibe network facilities in unserved and underserved areas of SIND Province, an advance payment of Rs. 89,800,000 out of the total approved contribution of Rs. 449,000,000 was made. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs 179.6 million from Wateen. Terms for the payment of subsidy are similar to those explained in note 13.1.

13.11 Pursuant to Service and Subsidy agreements dated 27 April 2009 between the Company and Wateen Telecom & PTCL for setting up Broadband network facilities in unserved and underserved areas of Faisalabad Telecom Region (FTR), an advance payment of Rs. 47,828,000 and 238,324,000 was made to Wateen & PTCL respectively out of the total approved contribution of Rs. 239,140,000 and Rs.1,191,620,000 for Wateen & PTCL respectively. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 95.66 and Rs. 476.65 million from Wateen & PTCL respectively. Terms for the payment of subsidy are similar to those explained in note 13.1.

13.12 Pursuant to Service and Subsidy agreement dated 17 May 2009 between the Company and PTCL for setting up telecommunication network facilitie in unserved and underserved areas of Larkana , an advance payment of Rs. 45,600,000 out of the total approved contribution of Rs. 228,000,000 wa made. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 91.20 million from PTCL .Terms fo the payment of subsidy are similar to those explained in note 13.1.

13.13 Pursuant to Service and Subsidy agreement dated 17 May 2009 between the Company and Wateen Telecom for setting up optical fiber networ facilities in unserved and underserved areas of Baluchistan Province (Baluchistan Pacakage-1 project) , an advance payment of Rs. 74,800,000 ou of the total approved contribution of Rs.374,000,000 was made. Pursuant to the terms of the agreement the Company has obtained an irrevocabl bank guarantee of Rs. 149.60 million from Wateen .Terms for the payment of subsidy are similar to those explained in note 13.1.

13.14 This represents amount paid to Pakistan Foundation Fighting Blindness-PFFB out of the total approved contribution of Rs. 6,848,367, pursuant to Service and Subsidy agreement dated 15 September 2008 and amendment to the agreement dated 17 June 2009 between the Company and PFFB for Special Project -ICT for Disabled- Up gradation of Audio World & Access Internet Café ( I.T Help & Audio World Programs). The payment include advance of Rs.1661,468 for procurement of ICT equipment and Rs, 3,164,521 against establishment of Audio World. Balance subsidy is payable upon procurement of equipment and submission of supporting document, as defined in the agreement over a period of one year from the date of agreement.

13.15 Pursuant to Service and Subsidy agreements dated 25 June 2009 between the Company and PTCL for setting up broadband network facilities in unserved and underserved areas of Multan Telecom Region (MTR), an advance payment of Rs. 232,208,800 was made out of the total approved contribution of Rs.1,161,044,000. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 464.42 million from PTCL respectively .Terms for the payment of subsidy are similar to those explained in note 13.1.

13.16 Pursuant to Service and Subsidy agreements dated 25 June 2009 between the Company and PTCL for setting up broadband network facilities in unserved and underserved areas of Southern Telecom Region-1 (STR-1), an advance payment of Rs. 109,911,124 was made out of the total approved contribution of Rs.549,555,618. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 219.82 million from PTCL.Terms for the payment of subsidy are similar to those explained in note 13.1.

13.17 Pursuant to Service and Subsidy agreement dated 25 June 2009 between the Company and PTCL for setting up optical fiber network facilities in unserved and underserved areas of Baluchistan & Punjab Provinces (Balochistan Pacakage-2 project) , an advance payment of Rs. 240,000,000 out of the total approved contribution of Rs.1,200,000,000 was made. Pursuant to the terms of the agreement the Company has obtained an irrevocable bank guarantee of Rs. 480 million from PTCL. Terms for the payment of subsidy are similar to those explained in note

During the year, the Company has received Rs.1,592.763 million from the Ministry of Information Technology, Government of Pakistan against which Rs. 1,573.996 million were disbursed to operators and Rs. 21.950 million were paid for technical audit (Refer note 14). On commulative basis, the Company has received Rs. 1,794 million upto the year end out of which Rs. 1,771 million has been distributed under subsidy grant payments and Rs. 21.950 million has been paid to technical auditors.

## 14 PAYMENTS FOR TECHNICAL AUDIT

| | Notes | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|---|
| Telecom Services & Consultants (Private) Ltd. (Tel-e-Com) | *14.1* | 5,000,000 | - |
| Telecom Services & Consultants (Private) Ltd. (Tel-e-Com) | *14.2* | 6,549,088 | - |
| Optiwave Technologies Pvt Limited | *14.3* | 5,890,404 | - |
| Telecom Services & Consultants (Private) Ltd. (Tel-e-Com) | *14.4* | 3,231,000 | - |
| MYSON Engineering System | *14.5* | 1,280,000 | - |
| | | 21,950,492 | - |

14.1 This represents amount paid to Tel-e-Com for Technical Audit Service upon achieving the 1st milestone out of the total approved fee of Rs. 28,500,000 . Payment was made pursuant to Technical Audit Services agreement dated 02 August 2008 between the Company and Tel-e-com. The firm is appointed as Technical Auditor for the RTeS project at Malakand Division . The remaining amount will be paid in 4 installments upon confirmation of respective project mile stones.

14.2 This represents amount paid to Tel-e-Com for Technical Audit Service against mobilization advance and achieving two milestones out of the total approved fee of Rs. 12,594,398 . Payment was made pursuant to Technical Audit Services agreement dated 01 January 2009 between the Company and Tele-e-com. The firm is appointed as Technical Auditor for the RTeS project at Dera Ghazi Khan Division . The remaining amount will be paid in 3 installments upon confirmation of respective project mile stones.

14.3 This represents amount paid to Optiwave Technologies for Technical Audit Service against mobilization advance and achieving two milestones out of the total approved fee of Rs. 11,327,700 . Payment was made pursuant to Technical Audit Services agreement dated 01 January 2009 between the Company and Optiwave Technologies. The firm is appointed as Technical Auditor for the RTeS project at Sukkur Division . The remaining amount will be paid in 3 installments upon confirmation of respective project milestones.

14.4 This represents amount paid to Tele-e-Com for Technical Audit Service against mobilization advance and 1st milestones out of the total approved fee of Rs. 8,975,000. Payment was made pursuant to Technical Audit Services agreement dated 26 March 2009 between the Company and Tele-e-com. The firm is appointed as Technical Auditor for the RTeS project at Bahawalpur Division . The remaining amount will be paid in 4 installments upon confirmation of respective project milestones.

14.5 This represents amount paid to MYSON for Technical Audit Service upon achieving the 1st milestone out of the total approved fee of Rs. 6,400,000. Payment was made pursuant to Technical Audit Services agreement dated 15 April 2009 between the Company and MYSON. The firm is appointed as Technical Auditor for the RTeS project at Dadu Lot. The remaining amount will be paid in 4 installments upon confirmation of respective project mile stones.

## 15 COMMITMENTS

As detailed in Note 13, the commitment in respect of subsidy grant payments as at 30 June 2009 amounts to Rs. 6,069.11 million

As detailed in Note 14, the commitment in respect of outstanding payment to technical auditors amounts to Rs 52.60 Million

## 16 Financial instruments and related disclosures

**Financial risk management**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly

The Board of Directors of the Company oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

### 16.1 Concentration of credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash at bank and other receivable. The management of the Company is not exposed to significant concentration of credit risk agains these financial assets.

### 16.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities

The Company's financial liabilities include creditors and accrued and other liabilities, the contractual payment against these financial liabilities approximates their carrying values. These financial liabilties are payable within one year of the balance sheet date.

### 16.3 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rate. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**a) Interest rate risk**

The Company has no interest-bearing liabilities so it is not exposed to interest rate risk.

**b) Currency risk**

The Company is not exposed to currency risks as it has no transaction in foreign currency

### 16.4 Capital risk management

The Board's objective when managing funds is to safeguard the Company's ability to continue as a going concern so that it can achieve its primary objective, provide educational and cultural activities to the stakeholders and to maintain fund balance to support the sustained development of its activities.

### 16.5 Fair values of financial assets and liabilities

Fair values of the Company's financial assets and liabilities approximate their book values.

## 17 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Company is governed by the Ministry of Information Technology, Government of Pakistan (GoP). Therefore, all departments and agencie controlled by the GoP ("State-controlled entities") are related parties of the Company. Other related parties include directors, members, ke management personnel and entities under common directorship. Remuneration to the chief executive is disclosed in note 18 to these financi statements. Balance with related party is disclosed in note 6.1 to these financial statements. Insignificant transactions with Government of Pakista and Government owned entities are not disclosed as the management is of the opinion that it is impracticable to disclose such transactions due to th nature of the Company's operations. Significant transactions with State-controlled entities are as follows:

| | 30 June 2009 Rupees | 30 June 2008 Rupees |
|---|---|---|
| *State owned entities* | | |
| Grant received during the year | **1,701,315,750** | 288,640,999 |
| *Associate due to common directorship* | | |
| Subsidy grant payment | **1,251,396,670** | 157,029,745 |
| Expenses incurred on behalf of associate | **1,562,776** | 658,014 |

## 18 Remuneration of chief executive officer

| | | |
|---|---|---|
| Managerial remuneration | **7,500,000** | 7,500,000 |
| Allowances | **4,500,000** | 4,500,000 |
| | **12,000,000** | 12,000,000 |

Chief executive officer is also provided with the Company's maintained vehicle. Further chief executive officer is also entitled to gratuity, th provision for which is determined by actuary.

## 19 GENERAL

19.1 Due to revision of the 5th Schedule to the Companies Ordinance, 1984 by the Securities and Exchange Commission of Pakistan vide SRO 859(1)/2007 dated August 21,2007, previous year's figures have been rearranged and / or reclassified ,wherever necessary, for the purpose of

19.2 Figures have been rounded off to the nearest Pak Rupee.

**Chief Executive**

**Director**