Directors' Report

The Board of Directors of Telecard Limited is pleased to present the Financial Statements and review of your Company's performance for the period ended 31 December 2009.

Review of Current Operations

The financial performance of the Company improved markedly in the last financial year 2008-09, and a healthy revenue level continued into the first quarter of the current financial year. However, as shared with the members in the quarterly report of the directors, a major outage occurred in the long distance services network of the Company towards the end of September 2009. This had a very substantial impact on the short term revenue and cash flow position of the Company. Despite all out efforts of the management team, the Company lost more than 3 months of revenues from the long distance segment, and the cumulative impact of this outage on revenues is in excess of Rs. 1 billion. Alhamdulillah, the problem has been resolved and the Company has resumed normal long distance services.

Consequently, the net revenues for the half year under review declined by 40% to Rs. 1,085 million from Rs. 1,818 million in the corresponding period last year. Without the network outage, the company was well on the way to post a nominal revenue growth over the same period. The Gross Profit for the half year decreased by almost 65% to Rs. 168.15 million due to reduced revenue and high fixed costs like depreciation and amortization. Operating Costs of the Company continued to show a declining trend as a result of restructuring implemented to align the organization with the business realities. Operating Costs declined by nearly 50% to Rs. 181.7 million for the half year. Finance costs remained almost unchanged as the debt level of the company remained the same. The Net Loss for the period was Rs. 219.9 million compared to a net loss of Rs. 115.15 million over the same period last year.

The telecom industry as a whole continues to operate in a very difficult environment. The industry has gone in a few short years from being over-protected to hyper-competitive, and all operators have experienced reduced margins and cash flow. As the industry is highly regulated, the operators are expecting the Ministry of IT & Telecom (MoITT) and the PTA to take note of the situation and to take corrective actions where appropriate. We are hopeful that at the government will play its due role in resolving these issues.

Notwithstanding this, the management has continued to execute restructuring and resource optimization initiatives to improve the operational efficiency and quality of services.

Term Finance Certificates Issue of the Company

In a difficult operating and competitive environment the Company has successfully retired the principal amount of the Term Finance Certificates (TFCs) from Rs. 2,400 million to Rs. 1,093.680 million. However, in view of the abovementioned unforeseen circumstances, the Company took the initiative to request its TFC holders for a revision in the repayment schedule of the outstanding balance. This request was accepted by the TFC holders, and the payments falling due on 27 November 2009 and thereafter were re-structured. The overall term of the TFC has now been extended by three years to November 2013 which will ease the debt servicing burden on the Company.

Auditors Observations

1. With reference to a paragraph (a) of the auditors observation, your Company's management contends that the spectrum (Frequencies) acquired from PTA is fundamentally a sum of parts, having a life of 20 consecutive years. Each year's license becoming operational only in its year of intended use. The Company has acquired specific borrowings for the acquisition of the spectrum. It contends that while the frequencies under the auditor's review may have become operational, the respective tranche of the license will be operational only in the year of its intended use. Therefore, the remaining cost of the spectrum qualifies for capitalization of borrowing cost.

2. The revaluation of one of the frequencies (Spectrum) held by the Company, has been viewed differently by the auditors. However, the Company maintains that the revaluation has been done in a manner which is conservative, prudent and ethically correct. Further, it is in accordance with the subsisting offers received from credible companies in the telecommunications industry. If the Company did not choose to revalue the frequency under review, it would have understated the value of your Company.

3. The WLL Operators requested the government to allow a 4 year moratorium followed by a 10 year installment plan for payment of the balance 50% of the Initial Spectrum Fee, in line with the terms provided to the Cellular Mobile Operators. The Cabinet Division granted the 4 year moratorium in 2006, and constituted a committee to deliberate the request for payment in 10 annual installments. While the decision of the committee on the installments is awaited, the Company and other WLL Operators are of the view that a favorable decision in this regard will be taken by the government. The balance Initial Spectrum Fee is, therefore, classified as a non-current liability in these accounts.

Future Prospects

Your Company remains focused on increasing profitable revenue streams, reducing its cost base and enhancing the quality of service to its customers. The management continues to proactively pursue avenues which reinforce this direction, and is doing so with a sense of importance and perseverance.

On behalf of the Board

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Shams ul Arfeen
Chief Executive Officer

26 February 2010