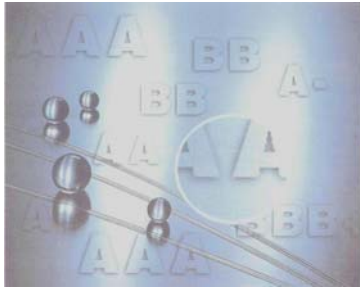


CORPORATE RATING METHODOLOGY



INTRODUCTION

PACRA's framework for assessing credit quality makes use of both qualitative and quantitative analyses to assess the business and financial risks of the corporate entity. Ratings are an assessment of the entity's capacity and willingness to service financial obligations in a timely manner and are intended to be comparable across industry groups. Because short-term and long-term ratings are based on a company's fundamental credit characteristics, a correlation exists between them (see PACRA Rating Correlations chart). Analysis typically involves at least three years of operating history and financial data as well as company and rating agency forecasts of future performance. To achieve a clearer perspective on relative performance, a company's performance is compared with that of others in its peer group. In addition, a sensitivity analysis is performed through several "what if" scenarios to assess a company's capacity to cope with changes in its operating environment. A key rating factor is financial flexibility, which depends, in large part, on the company's ability to generate cash from operations. The risks associated with the implementation of any large project undertaken by the entity, and its funding and business risks are also evaluated, with relative significance assigned proportionate to the project size.

The primary function of PACRA is to evaluate the capacity and willingness of an entity / issuer to honor its financial obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings.

PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

QUALITATIVE ANALYSIS

Industry Risk: PACRA determines a company's rating within the context of each company's industry fundamentals. Industries that are in decline, highly competitive, capital intensive, cyclical or volatile are inherently riskier than stable industries with oligopolistic structures, high barriers to entry, national rather than international competition and predictable demand levels. Major industry developments are considered in relation to their likely effect on future performance. The inherent riskiness and/or cyclical nature of an industry may result in an absolute ceiling for ratings within that industry. Therefore, an entity in such an industry is unlikely to receive the highest rating possible ('AAA') despite having a conservative financial profile, while not all entities in low-risk industries can expect high ratings. Instead, many credit issues are weighed in conjunction with the risk characteristics of the industry to arrive at an accurate evaluation of credit quality.

Operating Environment: PACRA explores the possible risks and opportunities in a company's operating environment resulting from social, demographic, regulatory and technological changes. It considers the effects of geographical diversification and trends in industry expansion or consolidation required to maintain a competitive position. Industry overcapacity is a key issue because it creates pricing pressure and, thus, can erode profitability. Also important are the stage of an industry's life cycle and the growth or maturation of product segments, which determine the need for expansion and additional capital spending. In rating cyclical companies, PACRA analyzes credit-protection measures and profitability through the cycle to identify a company's equilibrium or midcycle position. The primary challenge in rating a cyclical company is deciding when a fundamental shift has occurred in financial policy or the operating environment that would necessitate a rating change.

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RATING METHODOLOGY

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Market Position: Several factors determine a company's ability to withstand competitive pressures, including its share in key markets, product dominance and the ability to influence price. Maintaining a high level of operating performance depends largely on product diversity, geographic spread of sales, diversification of major customers and suppliers and comparative cost position. Size may be a factor if it confers major advantages in terms of operating efficiency and competitive position. In commodity industries, size is not as important as cost position, since the ability of one participant to influence price is usually not significant.

Management: PACRA's assessment of management focuses on corporate strategy, risk tolerance and funding policies. Corporate goals are evaluated to determine if management has an aggressive style dedicated to rapid growth that maximizes near-term earnings at the expense of future performance or a conservative style geared toward optimizing cash flow over the long term. A policy of growth through acquisition is not necessarily a negative credit factor, especially in a consolidating industry in which new projects would dampen prices for all participants. Key factors considered are the mix of debt and equity in funding growth, the company's ability to support increased debt, and the strategic fit of new assets. The rating evaluation also factors in PACRA's perception as regards the ability and willingness of the entity sponsors to provide support in a financial distress situation. The historical mode of financing acquisitions and internal expansion provides insight into management's risk tolerance. Although a judgment on the quality of management is subjective, financial performance over time provides a more objective measure. PACRA assesses management's track record in terms of its ability to create a healthy business mix, maintain operating efficiency and strengthen market position. PACRA also gives management significant credit for delivering on past projections or maintaining previously articulated strategies when evaluating future growth plans and related financial projections.

Corporate governance: PACRA's assessment of corporate governance involves both systematic analyses of governance data and information, and the more contextual reviews of an individual entity's governance

practices. PACRA considers the independence and effectiveness of the board of directors to be an essential element of a robust corporate governance framework. The board's oversight of such related party transactions that may lead to conflicts of interest is evaluated. Board oversight of the audit function is also assessed, being an important safeguard in protecting the integrity of an entity's financial reporting. The analysis includes an overview of the reasonableness of the executive and director remuneration in comparison with the market norms and standards, which also provides an insight into the relative financial discipline prevalent in the entity's culture and operations. Special attention is given to the relative complexity of the shareholding/ownership structure, and/or ownership by private individuals and families, and the implications for the management behavior and financial stability of the entity are evaluated.

Accounting: While PACRA's rating process does not include an audit of a company's financial statements, it examines accounting policies and the extent to which they accurately reflect a company's financial performance. Relevant areas are consolidation principles, valuation policies, inventory costing methods, depreciation methods, income recognition and reserving practices, pension provisions, treatment of goodwill and off-balance sheet items. The overall aim is to judge the aggressiveness of the accounting practices and, where necessary, restate figures to make the company's financials comparable with those of its peers.

QUANTITATIVE FACTORS

The quantitative aspect of PACRA's corporate ratings focuses on the company's policies in relation to operating strategies, acquisitions and divestitures, leverage targets, dividend policy and financial goals. Paramount to the analysis is the company's ability to generate cash, which is reflected by the ratios that measure profitability and coverage on a cash flow basis. These credit-protection measures are evaluated over a period of time to determine the strength of a company's operations, competitive position and funding ability. In dealing with quantitative measures, PACRA regards the analyses of trends in a number of ratios as more relevant than a single ratio, which represents only one

point in time. In its financial analysis, PACRA takes care to use statistics and financial measures which, as closely as possible, reflect the economic reality of an entity's financial position.

Cash Flow Focus: In its financial analysis, PACRA emphasizes cash flow measures of earnings, coverage and leverage. Cash flow from operations provides a company with more secure credit protection than dependence on external sources of capital. PACRA's approach gives more weight to cash flow measures than equity-based ratios. The latter rely on book valuations, which do not always reflect current market values or the ability of the asset base to generate cash flows. Measures such as debt-to-equity and debt-to-capital are less relevant to a credit analysis because they are based on formalized accounting standards, which are subject to varying interpretation. As the equity account is presented at book value, it does not provide the most accurate assessment of a company's asset base to generate future cash flows. Thus, asset values may be overstated or understated, while the company's liabilities remain close to fair market value. However, use of such ratios is prevalent in many parts of the world and they have relevance in helping investors understand a company's financial profile. Stock buybacks do not necessarily have negative ratings implications if they are not made with additional debt. The company may consider that these transactions provide the best return of available investments, and the reduction in book equity has no effect on its cash flow generating ability.

Notwithstanding the above discussion, the accruals or fair-value based measures are not disregarded entirely. In corporate financial analysis, PACRA considers many key measures that are not captured in the cash flow statement, as many financial events that do not have an immediate cash flow impact, may have medium-term and long-term implications for cash flows for which the book adjustments serve as a useful indicator. Examples may include marking of assets to market, taking an impairment charge through a major write-down of goodwill or the entry into a long-term derivative. Other book adjustments – a write-down in inventory, for example – could signal a much more immediate impact on the entity's financial prospects. Another limitation of the cash flow perspective can be observed in the case of movements in foreign currency exposure that are typically not revealed from the cash flow statement, but

would be evident from income statement measures and/or the reconciliation of the opening and closing balance sheet data.

Earnings and Cash Flow: Key elements in determining a company's overall financial health are earnings and cash flow, which affect the maintenance of operating facilities, internal growth and expansion, access to capital and the ability to withstand downturns in the business environment. The availability of funds to repay debt without external funding is given special consideration. PACRA also examines capital expenditures to distinguish among maintenance amounts necessary to support a company's competitive position, regulatory requirements and discretionary expenditures that support growth. While earnings form the basis for cash flow, adjustments must be made for such items as non-cash provisions and contingency reserves, asset write-downs with no cash impact and one-time charges. PACRA's analysis focuses on the stability of earnings and the continuity of cash flows from the company's major business lines. Sustained cash flow provides assurance of the company's ability to service debt and finance operations and capital expansion without sizeable amounts of external funding.

Capital Structure: PACRA analyzes capital structure to determine a company's reliance on external financing. To assess the credit implications of a company's leverage, several factors are considered, including the nature of its business environment and the principal funds flows from operations. As industries differ significantly in their need for capital and capacity to support high debt levels, the assessment of leverage in the capital structure is based on industry norms.

The evaluation of debt adjusts for off-balance-sheet debt, which consists of borrowings of partly owned companies or unconsolidated subsidiaries that may involve claims on the parent company. Typically, debt associated with receivables securitizations, a form of off-balance-sheet financing, is added back to the total debt figure. In the event of debt that is nonrecourse to the rated entity, PACRA reviews each situation to ascertain the relevance of including the debt as part of the total debt calculation. In situations where debt is excluded, the analyst will also make certain that any related cash flow or income is also excluded from the

evaluation. Preferred stock issues providing the holders with conversion options may be considered as quasi-debt instruments.

As different accounting systems can affect a company's assets and liabilities, PACRA makes adjustments to ensure comparability with other companies in the peer group. Such adjustments include asset values, leased property, contingency reserves, treatment of goodwill, provision for deferred taxes and off-balance-sheet liabilities.

Financial Flexibility: Having financial flexibility allows a company the latitude to meet its debt service obligation and manage stress without eroding credit quality. In terms of debt, the more conservatively capitalized a company, the greater its flexibility. In addition, a commitment to maintaining debt within a certain range allows a company to cope with the impact of unexpected events on the balance sheet. Other factors that contribute to financial flexibility are the ability to redeploy assets and revise plans for capital spending, strong banking relationships and equity markets access. Committed, multiyear bank lines provide additional strength. The inherent choice of dividend expense and capex investments may warrant an examination of reduction / suspension of one or both for stress cases.

Project risk evaluation: In the case of companies implementing a project of significant size, PACRA evaluates the risks associated with that project, and factors in these risks while arriving at the overall rating. The relative size of the project as compared with the overall operations of the rated entity would indicate the relative significance of the project risk within the overall rating opinion.

The project's business risk, particularly in relation to the entity's existing product line, and the management's track record in implementing such projects are key factors. An assessment is made of the implementation risks such as time and/or cost over-runs, technology risk, and the impact of these on project's viability. Furthermore, funding risks with regard to project's capital structure and funding arrangements are also evaluated.

KEY TERMS AND RATIOS

On its own, no one financial measure is more analytically predictive than all others at communicating the financial position of a rated entity. As a result, PACRA analysts balance the signals from a variety of financial measures. Furthermore, determination of the strength of an entity's credit profile would ultimately depend much more on how the trends in various financial measures for that entity are projected to continue, than on an individual year's results.

Some of the key financial terms and ratios used in PACRA's analysis are briefly explained below. These definitions and explanations are meant to be a general guide only. Specific industries may have industry-accepted definitions and practices that differ from the terms detailed below.

EARNINGS MEASURES

EBITDA: Earnings before interest, taxes, depreciation and amortization (EBITDA) excludes extraordinary items, such as asset write-downs and restructurings, unless a company has continuous one-time charges, which indicate that the items are not unusual in nature. This measure provides analysts with a clearer indication of a company's fundamental unleveraged cash-generating capacity than a measure such as net income plus depreciation. EBITDA may also be evaluated on an adjusted or pro forma annualized basis, rather than just historically, to reflect modifications to performance resulting from acquisitions, mergers or divestitures.

COVERAGE RATIOS

EBITDA Net Interest Cover: EBITDA divided by interest measures an entity's ability to meet its net interest payments from core business operating cash flows. Net interest is defined as cash and noncash expenses plus capitalized interest, minus interest income. Capitalized interest is the portion of a company's total interest allocated to the property, plant and equipment account during a period of internal asset construction funded with debt. Dividend payments, principally on redeemable preferred issues, should be included to the extent that they are mandatory cash payments.

LEVERAGE MEASURES

Debt and Net Debt: Debt represents total debt or gross debt, while net debt is total debt minus cash on the balance sheet. PACRA evaluates all debt measures on both a gross and net debt basis.

Net Debt/EBITDA: Net debt-to-EBITDA provides perspective on an entity's debt capacity and ability to refinance debt obligations falling due. The debt amount includes all items subject to mandatory cash payments upon redemption. In addition, it may include any number of contingent liabilities if there is an expected cash outflow. Leverage is often presented as the percentage of debt relative to an entity's total capital. While this measure is a useful guide to the nature of a company's capital structure, the conservative bias in accounting for items like fixed assets and intangibles means that, over time, book equity value, which represents the difference between assets and liabilities, will be distorted. PACRA finds net debt-to-EBITDA more meaningful in assessing the comparative leverage of entities.

Debt/Equity or Gearing Net Debt/Equity

This ratio shows total or net debt as a percentage of shareholders' equity. Gearing indicates the proportional share of the risk taken by owners and lenders and gives an indication of the flexibility to raise new debt. Gearing, taken in isolation, provides only a limited picture of the company and allowance is made for several factors. Specifically, the ratio quoted is typically calculated from year-end figures, which hide seasonal fluctuations in debt levels and also reflect the book value of a company's assets and equity with all the inherent limitations. Gearing levels vary among industry sectors and are meaningless in situations where shareholders' equity is limited or nonexistent, such as with a start-up or, when goodwill has been written off rather than amortized, following an acquisition.

PROFITABILITY RATIOS

Gross Margin Operating Margin Net profit Margin

Profitability margins provide a useful measure of a company's profitability from one period to the next,

stripping away gains due entirely to revenue growth. These ratios are also quite helpful in assessing relative profitability of companies within the same industry facing similar competitive pressures. However, a comparison of profitability margins across industries as a measure of relative creditworthiness is not relevant due to inherent differences in cost structure and risk premiums.

Return on Equity: Return on equity (ROE), or net income divided by shareholders' equity, measures the annual return on each rupee of book equity that accretes to shareholders. Since ROE is dependent on a company's capital structure, the use of leverage can increase this ratio, assuming sufficient funds are available to service the debt. Comparing ROE across industries can be misleading, as riskier industries tend to have higher ROEs, which compensate shareholders for the inherent risk of the investment. One concern with a company whose ROE lags others within its industry is the possibility that the company could take steps to improve this ratio to the detriment of fixed income debt holders.

STANDARD RATING SCALE & DEFINITIONS

LONG TERM RATINGS	SHORT TERM RATINGS
<p>AAA: Highest credit quality. ‘AAA’ ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p>	<p>A1+: Obligations supported by the highest capacity for timely repayment.</p>
<p>AA: Very high credit quality. ‘AA’ ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	<p>A1: Obligations supported by a strong capacity for timely repayment.</p>
<p>A: High credit quality. ‘A’ ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.</p>	<p>A2: Obligations supported by a satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic, or financial conditions.</p>
<p>BBB: Good credit quality. ‘BBB’ ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.</p>	<p>A3: Obligations supported by an adequate capacity for timely repayment. Such capacity is more susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories.</p>
<p>BB: Speculative. ‘BB’ ratings indicate that there is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.</p>	<p>B: Obligations for which the capacity for timely repayment is susceptible to adverse changes in business, economic, or financial conditions.</p>
<p>B: Highly speculative. ‘B’ ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.</p>	<p>C: Obligations for which there is an inadequate capacity to ensure timely repayment.</p>
<p>CCC, CC, C: High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic developments. A ‘CC’ rating indicates that default of some kind appears probable. ‘C’ ratings signal imminent default.</p>	<p>D: Obligations which have a high risk of default or which are currently in default.</p>

- Notes:**
1. PACRA's ratings are an assessment of the credit standing of entities in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors.
 2. A plus (+) or minus (-) may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the ‘AAA’ long-term rating category, to categories ‘CCC’ and below, or to short-term ratings.
 3. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.