JCR-VIS

TELECOMMUNICATION

Rating Methodology

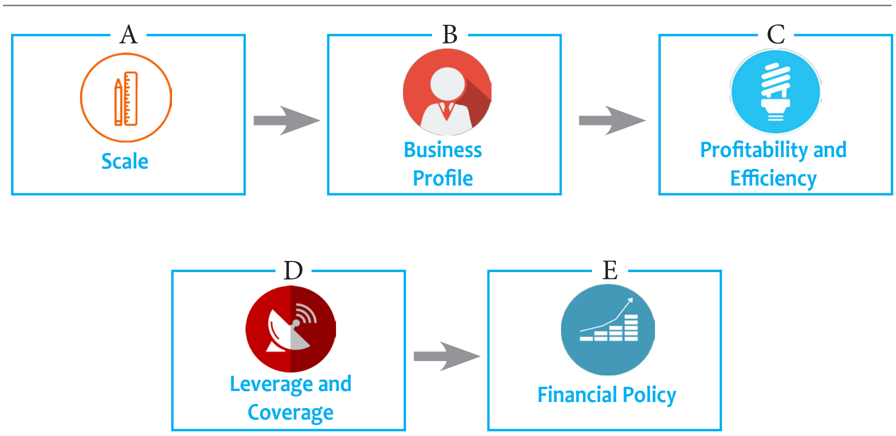
Corporate methodology of JCR-VIS Credit Rating Company Limited (JCR-VIS) is applicable to telecommunication companies. For instance, our analysis for ratings in this sector covers factors that are common across all industries such as ownership, management, liquidity, capital structure, and governance related risks which are not explained in detail in this document, as well as factors that can be meaningful on a company-specific basis. However, this methodology should enable the reader to understand the qualitative and quantitative considerations that are usually most important for ratings in this sector.

Telecommunications is a highly capital intensive industry. The significant investment in network infrastructure for maintenance and the introduction of new services to replace declining legacy products is likely to be a permanent characteristic of all segments of the telecommunications industry. Despite the expanding use of telecommunications networks to deliver a broader array of service offerings, the expanding capital spending to elevate the standards of Pakistani market will likely hinder free cash flow growth. Furthermore, increased competition and fast moving technological trends have generally reduced asset life cycles. In assessing the competitive position of a telecom entity, we put particular emphasis on: competitive environment, market share, regulation, technology, and operating efficiency. In our assessment of the financial risk profile, we consider company-specific capital expenditures necessary to remain technologically competitive or to expand the service footprint and those expenditures' effect on cash flow coverage ratios.

Other typical credit challenges in the industry include consolidation and shareholder activism. While consolidation potentially allows some market players to extract value from scale benefits or to achieve synergies that may ultimately improve financial performance, debt-financed acquisition activity remains a key credit risk in the sector.

In assessment of the risk profile of the telecom entity, following would be the major areas of focus:

Exhibit I: RATING FACTORS



1. SCALE

Size typically plays an important role in gauging the credit strength of a telecommunications company as it influences many of the core attributes that drive its resiliency to stress. These attributes may include, among other aspects, the breadth of a company's customer base, the depth of its business, economies of scale, operational and financial flexibility, and greater pricing power. Larger companies may have a greater ability to harness business trends, support a stable or growing market position and withstand competitive pressures. For service providers in the telecommunication industry, scale can enhance a company's ability to bundle products, increasingly a competitive advantage, and may be accompanied by market leadership that can bring superior access to customers, which positively influences its long-term business viability.

Scale also typically enhances a company's ability to absorb a temporary disruption, acquisition or misjudgment in the execution of capital investments. Larger companies are generally more broadly diversified, which can help reduce volatility and provide flexibility to generate cash from the divestiture of certain operations, if needed. Larger companies also benefit from greater financial resources as well as access to capital markets, which enhances financial flexibility. These attributes are particularly meaningful in a capital intensive industry characterized by reduced asset life cycles due to fast-moving technological trends.

2. BUSINESS PROFILE

A telecommunications company's business profile has a large degree of influence on its ability to generate operating cash flows and on the stability and sustainability of those flows. Core aspects of a business profile that drive success or failure typically include the depth and breadth of the company's product offering, its competitive environment and the position it occupies in its operating markets. Business profile is sub-divided into three sub-factors:

Business Model

A company's business model is an important differentiator when assessing its long-term sustainability, in particular in the telecommunications sector where substantially different business models co-exist and/or compete, widening the array of credit profiles in the sector. A diversified business model generally enables a company to more effectively compete than either a stand-alone fixed-line operation or wireless business. A diversified player would typically benefit from a sounder platform for adopting a range of new products, providing it with a stronger capacity to fulfill customers' needs as technologies rapidly evolve. It may also strategically invest in emerging technologies and ramp up investments, depending on market acceptance of these new technologies, widening the opportunity for success.

Competitive Environment

The competitive environment typically is a key driver of credit quality because the degree of competition a company faces impacts its pricing power, marketing expenses and customer churn, and hence the sustainability and level of its operating margins. It may also drive the level and pace of capital spending on adopting new technologies, either as a means to differentiate product offerings or reduce costs. The telecommunication sector has been characterized by increasing competitive pressure, in particular for incumbents as regulatory liberalization and technology have created an environment where a host of competitors threaten the value of incumbents' assets.

Technological Positioning

The technical positioning of an operator can provide significant competitive advantage or conversely weigh on its capacity to retain or expand its customer base. Hence, a company's investment strategy can be critical to its future prospects. For example, we typically view the ownership of a mix of frequencies to be crucial for a mobile operator's business model, in order to handle increasing traffic volume and provide broad geographical coverage across its area of operation. While the cost of adopting new technology may be significant, both in terms of capital required and the risk of failure, the failure to quickly adopt a new technology before competition erodes the incumbent's position may carry some significant business cost.

Regulatory Environment

Due to the essentiality of the product, including the growing demand for high service levels, the public objectives of maintaining fair competition and competitive prices, and the high capital costs associated with its infrastructure, the telecom industry is subject to a high degree of government regulation and oversight. As such, the regulatory framework under which a telecom company operates is an important determinant of its business profile, primarily because it influences the competitive environment and can help or hinder the company's ability to predictably earn a return on its investment. In Pakistan, one of the dominant challenges facing former government-owned company is adapting to the transition from monopoly to competitive enterprise. The balance that regulator strike between increasing competition and protecting employment and price levels in the former monopoly has a major impact on business profiles. The potential for new concessions or licenses and the way regulation enables prospective carriers to build new networks, access other carriers' networks, interconnect their networks with incumbents, and obtain "equitable" access pricing can heavily influence the future competitive landscape and operators' financial trajectory.

Market Share

Market share is important for credit assessment as it can indicate the level of competitive success, the strength of customer relationships, the potential to benefit from operating leverage and likely prospects for future performance. Indeed, the relative positioning of a telecom within its market segments may provide some indication of the sustainability of its operating position and whether it will be able to lead or be required to react to the nature and pace of development in the industry. Furthermore, the strength of a telecom within its market can influence customer perceptions, its ability to leverage existing capabilities to develop and support revenue, the flexibility to innovate without having to make large bets, and its degree of influence on the regulator. Usually, large market share of incumbent service providers, combined with established infrastructure and network coverage, has been a significant advantage.

3. PROFITABILITY AND EFFICIENCY

Profits matter because they are necessary to maintain a business' competitive position, including sufficient reinvestment in marketing, research, facilities, and human capital. The breadth of business models and diversity of operating environments in the telecommunications sector (i.e. diversified, wireline, wireless, regional, national, postpaid, prepaid, etc.) makes it important to adopt a multidimensional approach when assessing profitability. While the level and stability of operating margins is a key consideration in assessing risk to debt holders, revenue trends may also drive an operator's capacity to sustain its profitability levels over the medium to long-term. The strength of an entity's profitability would typically be a function of both the sustainability of its margins and its revenue trajectory.

4. LEVERAGE AND COVERAGE

Leverage and coverage measures are key indicators for a company's financial flexibility and long term viability. Financial flexibility is critical to respond to changing consumer preferences, regulatory changes, competitive challenges, and unexpected events.

Debt to cash flows before working capital changes is an indicator of debt serviceability and leverage and is commonly used in this sector as a proxy for comparative financial strength. Retained cash flow to debt is a useful metric in the telecommunications industry, which is typically characterized by intense shareholder pressure; thus, dividend payments may be a rather inflexible component of cash outlays. Similarly, capital investment spending in evolving and existing telecommunication technology may be required or strategically necessary, and it is useful to incorporate these expenditures when assessing an operator's ability to cover ongoing interest payments.

5. FINANCIAL POLICY

Management and board tolerance for financial risk is an important rating determinant, because it directly affects debt levels, credit quality, and the risk of adverse changes in financing and capital structure.

Our assessment of financial policies includes the perceived tolerance of a company's governing board and management for financial risk and the future direction for the company's capital structure. Considerations include a company's public commitments in this area, its track record for adhering to commitments, and our views on the ability for the company to achieve its targets. Financial risk tolerance serves as a guidepost to investment and capital allocation. Liquidity management is an important aspect of overall risk management and can provide insight into risk tolerance.

Financial policies are very important in the telecommunication sector, which is characterized by frequent merger and acquisition activity. While in-market consolidation can allow market players to extract value from scale benefits, achieve substantial synergies, improve margins and increase cash flows, debt-financed acquisition activity may heighten credit risk, especially when the acquisition increases the company's business risk profile or distract management from the core businesses.

Shareholder pressure is also prevalent in some segments of the telecommunication industry, because established telecommunications companies often have the capacity to generate significant cash flow, even in the face of declining access lines and challenges to growing revenue. Shareholder activism to direct a good portion of the available cash to the equity side can weaken a company's credit profile in an environment of increasing competitive challenges and high capital intensity. This can take the form of dividends, equity recapitalizations, or buybacks that diminish financial flexibility.

Ratings reflect a number of additional considerations. These include but are not limited to: our assessment of the quality of management, corporate governance, financial controls, liquidity, non-wholly owned subsidiaries, excess cash balances, event risk, and parental and institutional support.

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

Faheem Ahmad

President & CEO, JCR-VIS Credit Rating Company Limited
Founder, VIS Group
Chairman, Association of Credit Rating Agencies in Asia

Mr. Ahmad possesses 30+ years experience in financial risk assessment with focus on Islamic finance, venture capital and general management. He has top level management experience at international level in the fields of credit ratings, Islamic and conventional financial risk assessment modeling, industrial management and construction engineering. Mr. Ahmad is an active participant at international forums on Credit Ratings. He obtained his B.S in Civil Engineering from NED University of Engineering and Technology, Karachi. He also has Masters Degrees in Engineering and Business Administration from USA. He could be contacted at faheem@jcrvis.com.pk

Maimoon Rasheed - Director

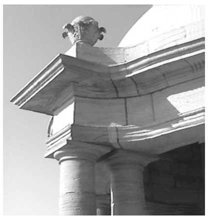
Methodology & Criteria

Maimoon possesses 12+ years experience in financial risk assessment with focus on credit ratings, conventional finance, and general management. He possesses management experience in the fields of financial risk modeling, asset management and brokerage. He has been actively involved in both buy and sell side capital market research. Maimoon's overall experience comprises ratings of entities across a range of sectors including financial – commercial banks, investment banks, asset management companies, leasing companies, modarabas, securities houses and insurance companies – and corporates in different industries. He obtained his B.S in Applied Geology from Punjab University, Lahore. He also has Masters Degrees in Business Administration with majors in Finance. He could be contacted at maimoon@jcrvis.com.pk

Jahangir Kothari Parade (Lady LLoyd Pier)
Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.



Jahangir Kothari Parade

National Excellence, International Reach

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

JCR-VIS Credit Rating Company Limited

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JV Partner CRISL, Bangladesh
Member Association of Credit Rating Agencies in Asia

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