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REPUBLIC OF THE PHILIPPINES

PRIVATIZATION ACTION PLAN

FOR

MARICALUM MINING CORPORATION

PRICE WATERHOUSE
International Privatization Group

DRAFT FINAL

September 26, 1991

Price Waterhouse L.L.P.

REPUBLIC OF THE PHILIPPINES

Privatization Action Plan for Maricalum Mining Corporation

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I. INTRODUCTION

Price Waterhouse (U.S.) has been contracted by the United States Agency for International Development (USAID) to assist the Asset Privatization Trust (APT) of the Philippines in executing the privatizations of Maricalum Mining Corporation (MMC) and North Davao Mining Corporation (NDMC).

Price Waterhouse (PW), through its International Privatization Group (IPG), has undertaken to prepare a Privatization Action Plan for each of these companies and thereafter, if appropriate, assist APT with the execution of the plans therein recommended including the preparation of sales memoranda, promotion of the companies among potential investors, and provision of investment banking advice during the negotiation and closing of any eventual sales.

To provide a technical foundation for its work, PW engaged Pincock, Allen & Holt, Inc. (PAH), international mining consultants based in Colorado (U.S), to provide a technical diagnosis of each company and on the basis of this, a valuation of each as a going concern.

This report constitutes the Privatization Action Plan for Maricalum Mining Corporation. It is based on the work of an appraisal team comprising technical specialists from PAH and IPG, who visited the company and its operations in late July of this year. It also relies on evaluation studies on MMC recently conducted by SGV Consulting (Philippines).

PW/IPG has made diligent efforts to regularly inform APT of the progress of its work during the execution of this assignment. In August of this year, a presentation of the preliminary findings by the IPG/PAH team was made at PW's offices in Washington D.C. to the Associate Executive Director of APT charged with its privatization.

The analysis and recommendations made by PW/IPG in this report rely principally on PAH's assessment of MMC's current operations and economic potential. PAH's conclusions are summarized in a report to PW/IPG dated September 16, 1991 (the MMC Evaluation Report). The Evaluation Report contains greater technical detail regarding the Company's operations and valuation than is contained herein, and will be made available to APT upon request.

II. OBJECTIVES

IPG has been guided in the execution of its assignment by APT's primary objectives which are perceived to be as follows:

- to transfer ownership of MMC (the Company) to the private sector as soon as possible and under the best possible terms presently available in the market;
- to sell MMC as a going concern via a sale of shares;
- to prefer a sale which ensures ongoing operations over one which maximizes sales price considering the important social and economic benefits generated by the Company's operations in the Negros Occidental province, and
- to conduct the privatization process in a professional and transparent manner.

PW understands that APT cannot make cash investments in MMC to sustain its operations and cannot guarantee or in any way provide funding to MMC. The Company thus must be sold in an "as is" condition.

If necessary to complete a sale, APT will consider restructuring and/or writing off a substantial part of MMC's debt to the National Government (representing amounts owed to DBP and PNB) of P3,251 million (US$116 million). Other liabilities of the Company are expected to convey with the sale of shares.

III. COMPANY DESCRIPTION

Background

MMC, in 1984, assumed the mining claims of the former Marinduque Iron Mines Corporation (MIMC), covering approximately 1,470 hectares near Sipalay, in the province of Negros Occidental. MMC at the same time assumed the mining and processing facilities located on the properties which had been closed for over two years. Ownership of the claims carries a royalty obligation equivalent to 2% of gross sales, payable to the original claim holders.

A legal claim on the assets and mining claims assumed by MMC has been filed by their former owner, who is questioning their possession by DBP and PNB through foreclosure in 1983. Settlement is expected shortly by APT and thus the dispute is not considered to be an obstacle to the privatization of MMC.

Properties

The Sipalay mining claims contain three copper ore bodies which have been mined since 1956. MMC has operated the mining and plant processing facilities located on the property since 1985, after MIMC's operations were foreclosed and restructured. Remaining available reserves are estimated at around 86 million tonnes of ore. The reserves contain copper with an average grade of 0.55%, and minor amounts of gold and silver which add about 4% to the value of the copper produced.

Additional potential reserves of some 107 million tonnes have been identified on the Sipalay claim areas but have not been considered in the evaluation of MMC because these can be mined only if the plant installations are relocated. Such a project would entail a major capital investment, the justification of which has not been determined.

The plant facilities at Sipalay are designed to treat 35,000 tonnes/day (tpd). However some of the processing circuits are old and in disrepair, reducing the plant's potential capacity to around 25,000 tpd. At this rate, Sipalay's available reserves are sufficient for nine years of production.

Sipalay's production, however, is constrained by a severe shortage of mining and hauling equipment and needed repairs in the plant. Actual throughput has steadily declined from an average of over 26,000 tpd in 1988, to a present level of 15,000 tpd.

Production also has been disrupted recently due to unavailability of ore in the mine. Because the mine has been "high-graded" over the last few of years, large volumes of waste material have remained in the mine, leaving less exposed ore.

In addition to its mining and processing assets, MMC owns and operates a large power generation facility alongside its storage and pier facilities, all of which are located about 11 km from the plant, at Bulata. The Company rents office space in Makati for its headquarters operations.

Employment

Over 2,400 employees and workers are employed at the Sipalay site and another 150 at headquarters. Workers and their families at the site are provided housing, education. medical and general community services by the Company.

The Company also has a profit-sharing agreement under which it agrees to pay a bonus to all employees if output exceeds 70 million tpa of copper and net income exceeds P150 million (US$5.4 million). The agreement also provides for the Company to pay out ten percent of all net income in excess of P200 million (US$7.1 million) per annum, to qualifying employees.

IV. ASSESSMENT OF CURRENT CONDITION

MMC's mine and processing plant at Sipalay presently are operating inefficiently and uneconomically. At today's copper prices, the operation can barely cover its production costs but cannot generate surplus cash to fund needed repairs and equipment replacement. Without outside funding and/or higher copper prices, the Company's mine and plant will continue to deteriorate until eventually coming to a halt.

In spite of its inefficiencies, the Sipalay operation has managed to generate profits in the last year or more by "high-grading" ore from the mine. This practice has resulted in a large and growing overburden of waste, however, which soon will need to be removed at a substantial cost. Once this work begins, Sipalay will be producing less copper at a higher cost than today.

At its current throughput rate of 15,000 tpd, Sipalay produces around 4.4 million pounds of payable copper monthly, on average, along with about 370 ounces of gold and minor amounts of silver which are sold as byproducts. The sales value of this output at current market prices is about US$4.6 million (P129 million equivalent).

Sipalay's cash production cost, net of byproduct credits, is projected by PAH to be about US$1.03/lb, on average, over the next six months. This cost includes a 5% mining tax charged on its gross sales and the 2% royalty. At today's copper price of around US$1.05/lb, Sipalay will require outside support to cover the capital expenditures needed to sustain its operations at 15,000 tpd for six months. PAH estimates minimum capital investment requirements of P42 million (US$1.5 million).

MMC intends to continue "high-grading" the Sipalay mine in order to fund its operating and capital needs. This option will not be available much longer and soon the Company will need outside funding and/or help from increased copper prices. The privatization of MMC is intended to provide the Company with a new owner who can mobilize the capital resources required to restore Sipalay's output to potential capacity and lower its unit production costs to profitable levels.

V. ASSESSMENT OF OPERATING POTENTIAL

Given its high breakeven cost of production, Sipalay should produce the most amount of copper possible within its potential capacity in order to maximize output and thus minimize unit production costs. With lower costs, the Company can better insure its survival during periods of low prices.

According to PAH's estimations, Sipalay could restore production to its potential capacity to 25,000 tpd with an initial investment of around P500 million (US$17.9 million). This investment is needed principally to replace mining and transport equipment (42%), restore spare parts inventories (17%), expand the tailings disposal system (23%), rehabilitate the crushing and grinding circuits (8%), and develop the mine (3%).

PAH estimates that Sipalay, operating at potential capacity, could increase copper output by around 60% to an average of 84.7 million pounds of payable copper per year over the next nine years. The increase in throughput volume and operating efficiencies resulting from the rehabilitation investments could reduce its average cost of production to the equivalent to 93 US cents/lb (in present cost terms), including the 5% mining tax and 2% royalty. PAH believes that production costs could be reduced somewhat further through better mine planning.

Considering the age of Sipalay's plant facilities and the increasing uphaul distances from the mine over time, heavy ongoing capital investments will be required to maintain throughput at 25,000 tpd. PAH estimates a minimum yearly requirement of around P73 million (US$2.6 million), over the next six years, to adequately maintain the truck fleet, tailings systems, and plant. Beyond these yearly outlays, an additional P490 million (US$17.5 million) will be needed between 1994 and 1997, principally to replace haultrucks.

Even at potential capacity, Sipalay will be a high-cost producer compared to other copper mines in the world. This fundamentally is due to the low grade of copper in its reserves and the low value of byproducts in its copper ore. Sipalay's high cost of production provides it little margin, at expected copper prices, to internally fund the future investments necessary for maintaining its operations at potential capacity. Its high production cost will afford Sipalay's owners little downside protection against low copper prices and limited upside potential, unless copper prices rise.

Sipalay nonetheless could represent an interesting opportunity at the right price, to an efficient operator who could improve mine production through pit optimization approaches and better planning. Every 3 US cents saved on production costs, for example, would yield an additional P71 million (US$2.5 million) in annual profit, on average.

VI. VALUATION

Asset to be Valued

The asset to be sold by APT will be equity in MMC, through either the sale of MMC's existing shares or a new share issue. The objective of the valuation should be to value APT's present 100% equity holding of MMC. This valuation can serve as a basis for pricing existing shares or a new share issue.

MMC's equity should be valued by first valuing its assets as a going concern, and thereafter subtracting the value of the liabilities which will remain with the Company at the time of sale.

Excluding MMC's debt payable to the National Government, the Company owed P659 million (US$23.5 million) as of December 1990. The principal liabilities included:

(i) accrued taxes of P408 million (US$14.6 million);

(ii) an outstanding advance from the Company's mineral trader of P109 million (US$3.9 million), and

(iii) trade and other payables of P135 million (US$4.8 million).

These liabilities are expected to convey, along with all assets and mining claims, with the sale of MMC's shares.

Methodology and Assumptions

MMC's only economic activity is the Sipalay mining and processing operation. The price to be paid for Sipalay's assets as an ongoing operation will depend on investors' estimations of the future profits these assets can generate under their ownership.

Investors are likely to value Sipalay by discounting its future operating cash flows and the capital expenditures required to produce these cash flows. Discount rates will reflect perceived risks associated with realizing these projected flows.

Sipalay's future profits will depend principally on two factors: (i) future copper prices and, (ii) the ability of the new owner to increase output and reduce production costs. Based on copper's historical volatility, future changes in copper prices are likely to have a greater impact on MMC's future profitability than the production cost savings that can be introduced by an efficient operator.

In a recent market study, The Outlook for Copper to the Year 2000 (April 1991), PAH predicts copper prices to remain near present levels over the next several years, reflecting a close balance expected between supply and demand. Beginning as early as 1995, however, copper supplies are expected to tighten, leading to higher prices. PAH believes that higher copper prices ultimately will be necessary in order to attract new capacity and increase supply.

APT should base Sipalay's valuation on a copper price of US$1.00/lb, reflecting the medium-term price trend in the copper futures market. Conservative prospective investors are unlikely to assume much higher prices.

With regard to assumptions of future output and production costs, APT should base its valuation on PAH's projections at a potential capacity of 25,000 tpd. Yearly copper output, shown in the attached annex, will vary based on the grades of the ore being mined. Total cash cost of production should be assumed at 93 US cents/lb. These levels of output and costs should be achievable by an efficient operator, in PAH's expert opinion. A production life of nine years should be assumed, based on available mine reserves.

A valuation using the base case assumptions recommended above would be fair in that it would represent a realizable potential value and yet allow upside value to investors from higher copper prices and/or further improvements in production efficiency.

Projected Cash Flows

At an assumed copper price of US$1.00/lb, Sipalay would generate an annual cash flow of around P170 million (US$6.1 million), on average. Projected operating cash flows at various copper prices ranging between 90 US cents/lb and US$1.20/lb are shown in the attached annex. Projected initial and ongoing investment outflows also are shown.

The attached cash flow projections highlight the high sensitivity of Sipalay's operating cash flows to copper prices. Each 10 US cent/lb variation in price represents a change in annual cash flow of about P240 million (US$8.5 million), on average.

Discount Rates

The appropriate discount rate to use in valuing Sipalay's projected cash flows should reflect the risks involved in achieving these cash flows. While the base case assumptions used above may be realistic and achievable, the historic volatility of copper prices and the uncertainty involved in attaining the assumed output and production cost levels are likely to represent significant risks to prospective investors.

Non-operating risks, such as political and economic risks, also will be factored significantly into the discount rate. Perhaps among the most important of these is the possibility of a continuing lag in the devaluation of the peso vis-a-vis US dollar, which would result in a gradual squeezing of profit margins.

The discount rates which prospective investors will apply to evaluate Sipalay are likely to be in the 15-25% range considering the sizeable investments that are required and the risks listed above. Such rates are pre-tax and in constant price terms. An average rate of 20% would be fair for valuing Sipalay's profit flows under the base assumptions listed above. A lower rate would be appropriate for more conservatively assumed copper prices and/or higher assumed production costs.

Projected investment outflows, however, should be discounted at a lesser rate considering that these estimates are likely to be less uncertain than the projections of operating cash flows. A 10% rate, representing an opportunity cost of capital, would be fair for this purpose.

Going Concern Value

Using a constant copper price of US$1.00/lb, the base case assumptions and discount rates recommended above, the present value of Sipalay's projected operating cash flows would be about P790 million (US$28.3 million). After deducting the present value of the future investments required to produce these cash flows, estimated at around P1,040 million (US$37.1 million), Sipalay would have a negative net present value of P250 million (negative US$8.8 million).

A minimum copper price of around US$1.03/lb would be needed to justify Sipalay's initial and future rehabilitation investments. The net present values of Sipalay's assets in their present state, calculated over a range of copper prices and at different discount rates are shown in the table below.

Sipalay Mine

Going Concern Value of Assets

(million pesos)

Copper Price (US cents/lb)	Discount Rates (15%)	(20%)	(25%)
90	-1,270	-1,220	-1,190
100	-120	-250	-350
110	1,030	730	490
120	2,180	1,700	1,330

PAH in their MMC Evaluation Report, estimated the value of Sipalay's assets to be P28 million (US$1 million) at a copper price of US$1.00/lb and a discount rate of 20% applied to both profit inflows and investment outflows. The higher valuation reflects the discounting of future investment outflows at a higher rate.

The value of MMC's assets must exceed the value of its assumable liablilities of around P660 million (US$23.6 million), before its equity would begin to have a positive value. Based on the table above, MMC's equity would be negative if valued at any price below around US$1.09/lb. Thus if prospective investors assume future copper prices to be below this level, the Company's equity may not attract much interest unless some of the assumable liabilities can be reduced or restructured.

Sipalay's value as a going concern, however, is highly sensitive to copper prices. Every 10 US cents/lb variation in price represents a change in value of around P980 million (US$35.0 million). At an assumed copper price of US$1.10/lb, the net present value of Sipalay's assets would just exceed the value of its assumable liabilities by about P70 million (US$2.5 million).

PAH also estimated Sipalay's value based on prices recently paid for copper properties in other parts of the world. Based on the median acquisition cost paid per pound of recoverable copper in 63 transactions during 1989-90, Sipalay's reserves and facilities would be valued at around P290 million (US$10.3 million). This value however is less than the value of MMC's liabilities to be assumed, implying a negative value for its equity.

The analysis herein suggests that MMC's equity may be considered by the market of potential investors to have little to negative value. Investors who are bullish on copper and/or believe they can introduce major efficiencies to Sipalay's operations, however, could have an interest in acquiring MMC's shares.

The above valuation of Sipalay is purely financial, and does not include the important socio-economic value of its operations in the Negros Occidental province that is represented by the employment (both direct and indirect) it creates, the community services it provides and the local taxes it pays. Sipalay's potential buyers, however, are unlikely to reflect these non-financial benefits in their bid prices as these benefits do not directly affect them.

Liquidation Value

Considering its low value as an ongoing operation, Sipalay may be worth more under liquidation. MMC might expect to find buyers for some of its moveable plant and equipment in the local market. The expected liquidation value of Sipalay's assets should be carefully studied, however, before a decision to liquidate MMC is made.

MMC's working capital position at the time of liquidation is expected to be near zero after accounting for reasonable loss adjustments and closing costs. As of December 1990, current assets stood at P990 million (US$35.4 million) and total debt (excluding that payable to the National Government), was at near P660 million (US$23.6 million). After allowing a 25% loss reserve for inventories, a 15% loss on receivables, and a total write-off of prepaid expenses, however, MMC's net working capital would have been slightly positive, by about P60 million (US$2.1 million).

In a study recently commissioned by SGV Consulting, the forced liquidation value of MMC's fixed assets and spare parts inventories was estimated by Asian Appraisers (Philippines) to be around P1,400 million (US$50 million). No value was assigned to the additional potential reserves which have been identified at Sipalay or the undeveloped claim areas.

The estimates by Asian Appraisers should be used cautiously, however, as these may not consider the actual market demand for Sipalay's equipment and spare parts. The value which has been estimated by Asian Appraisers may be difficult to realize in today's market considering that potential buyers are limited in number and presently undercapitalized. Much of Sipalay's equipment is old and many spare parts are obsolete. Without the benefit of a thorough study of the demand for used mining equipment, PW/IPG would recommend that a more conservative estimate be used for decision-making purposes, perhaps at around half that by Asian Appraisers, or P700 million (US$25 million).

Accounting for closing costs that will include worker severance pay and equipment brokers' and other fees, the net proceeds from a sale of Sipalay's assets under liquidation, as of December 1990, have been estimated to be around P140 million ($5 million) as follows:

Estimated MMC Liquidation Value

(million pesos)

Sellable spare parts inventories *		120
Sellable fixed assets *		580
Value of other current assets, net		230
Value of land and buildings		0
less:	all non-Nat'l. Gov't. debts	(660)
	worker severance costs	(80)
	closing costs (5%)	(50)
Estimated net proceeds		140

* Half of Asian Appraisers' estimate.

The net liquidation value of MMC is slightly positive but not significantly different than the estimated value of Sipalay as an ongoing operation under a copper price assumption of US$1.10/lb.

MMC's net liquidation value can be expected to decline over time as Sipalay's physical assets continue to deteriorate due to lack of proper maintenance and repair.

VII. PRIVATIZATION OPTIONS

Basic Methods

APT's preference for selling MMC's shares can be satisfied through a negotiated sale of existing shares, a private placement of new shares, or a combination of the two. Other options for privatizing MMC which could be considered by APT include a bulk sale of Sipalay's assets as an ongoing operation, and break-up sales of MMC's claims and assets through liquidation.

Options of privatizing MMC through a public offering of its shares probably is not viable. The option of leasing Sipalay's assets and operations to a private operator is undesirable due to its inadequacies in (i) addressing the need for new capital to ensure ongoing operations, and (ii) moving ownership out of the hands of the Philippine government.

APT may wish to consider a buyout of MMC by its management, particularly if sales efforts fail to result in satisfactory bids. Assuming MMC management is interested in a buyout, such a plan would be preferable to a liquidation of the Company. Transfer of ownership to management could be made at a nominal price, provided certain conditions such as commitments for new loans, assumption of certain liabilities, and deferred compensation to APT, are satisfactorily addressed.

Sale of Existing Shares

This approach involves the sale of all or a majority of MMC's existing shares to either a single buyer or a small group of private investors who would become responsible for Sipalay's operations. MMC would be sold as a going concern but no new capital for the Company would be raised through the process. New investment would be up to the discretion of the buyer.

Considering that MMC's existing shares are likely to be priced for relatively little value, the market for the sale could include a broad market of individual and corporate investors. To ensure that only investors who are technically and financially capable of operating MMC successfully are considered, APT can establish qualification criteria for considering bids.

A private sale of existing shares offers the advantages of expediency for the seller and flexiblity for potential buyers, but does not address the Company's need for additional capital. It thus may not be the preferred approach in view of APT's privatization objectives.

Sale of New Shares

New capital for MMC can be ensured through a sale of new snares to private investors who would become majority owners in the process. APT could retain and later sell its existing shares, perhaps capitalizing on benefits to be generated by fresh capital and new ownership.

Although this process should ensure both a financially qualified buyer and fresh capital for MMC, the market of potential buyers with the capital resources necessary to make an important investment in MMC will be limited. The process also offers new owners little flexiblity regarding decisions of how much and when to make capital investments in MMC as well as limited opportunity to make basic changes to the ongoing operation.

Considering APT's objectives, this option nonetheless may be the most appropriate in that it ensures the transfer of the Company and its obligations "as is". The process, however, is likely to be long and difficult.

Bulk Sale of Assets

This approach would involve the sale of Sipalay's assets in a package and as an ongoing operation. It is an attractive process from a buyer's perspective in that it provides the buyer an opportunity to restructure existing operations and avoid both specific and otherwise unwanted contingent liabilities carried by the going concern.

Other liabilities, such as suppliers' credits and loans, can be assumed by the buyer under the terms of the sale. MMC's debt to the National Government of P3,251 million (US$116 million), for example, would be excluded and remain with MMC. Net proceeds from the sale received by MMC as seller of Sipalay's assets would be applied to this and other remaining MMC debts.

APT's concerns regarding the survivability of ongoing operations at Sipalay could be addressed through conditions in the sale requiring the new owner to (i) make a minimum capital investment in the operations to sustain operations, (ii) assume certain MMC payables and the loan from its mineral trader, (iii) honor the profit-sharing agreement with employees, and (iv) maintain a minimum base of employment at Sipalay.

This process provides a high degree of flexibility to both the seller and the buyer for negotiating a transfer of Sipalay's operations and for this reason would have good chances of success compared to the two options above.

Liquidation Sale

This approach may generate the greatest sales proceeds for APT, considering that the value of MMC as a going concern is expected to be little to zero. Because the socio-economic cost of closing the Sipalay operation is considerable, however, this approach should be taken only as a last resort once other options, including a management buyout, have failed to produce a suitable owner and a satisfactory price.

VIII. RECOMMENDED STRATEGY

The recommendations made herein are subject to satisfactory opinions which should be obtained regarding any potential legal and/or tax issues involved.

Process

PW/IPG understands from APT that several investor groups have expressed a preliminary interest in acquiring MMC. On the basis of this interest and considering APT's preference, the privatization of MMC should be accomplished through a private placement of new shares. The new share issue would be intended to provide MMC with new capital for rehabilitating its operations.

The new share issue also would be designed to dilute APT's existing holdings to a minority position. Considering that APT's existing shares are expected to have a value which is near zero to negative, APT's position will be easily diluted with minimum amounts of new equity capital.

To ensure transparency, the sale of MMC's new shares should be conducted through an open bid process under which the public would be invited to bid. All parties expressing serious interest through a non-binding letter of intent, would be invited to conduct due diligence prior to bidding. Bids to be submitted should be contingent only on financing and satisfactory documentation. Non-serious expressions of interest can be controlled by requiring a refundable deposit, say of P10 million (US$360,000) for example, with each bid.

Considering that APT may sell MMC equity for little to no value, evaluation criteria for selecting the successful bidder should be established to ensure a new owner who will be technically and financially capable of successfully maintaining Sipalay's ongoing operations. These criteria should be communicated in the invitations to bid and should include (i) investor operational experience; (ii) minimum investor net worth; (iii) plans to rehabilitate Sipalay's operations; and (iv) amount of consideration and form of payment, giving priority to cash. Considering APT's objectives, bids which offer to ensure Sipalay's ongoing operations should be preferred over those which offer to maximize sales proceeds.

Concurrently with the sale of the new shares, APT could sell part or all of its existing shares in MMC. Considering the expected low value of these shares, however, APT might prefer to retain all or a large part of its holdings in MMC for future sale at higher prices, particularly if a financially and technically capable new owner is found.

Under APT's privatization rules, at least two bids must be received through an open invitation process before any can be accepted. With regard to the claims and exploitation rights to Sipalay, foreign investors will be limited to a 40% ownership stake, under law, and thus will need to team up with local partners.

<u>Terms of Sale</u>

The greatest value to be derived by the Philippine government from a sale of MMC would be in the form of social and economic benefits to be generated by Sipalay's continuing operations. Sales price is secondary especially considering that the value of Sipalay in its present state is estimated to be little to zero.

If APT is to establish a minimum acceptable price, or floor price, for Sipalay's equity, it should be tied to the value of the next best option. In this case, APT's next best option would be a sale of MMC's assets through liquidation. By pegging the value of MMC's equity to the net liquidation value of its assets, APT can reduce the chances of a speculative sale to a buyer who would acquire MMC's shares to thereafter liquidate its net assets at a profit.

In the interest of maintaining the going concern, APT nonetheless should consider those bids for MMC's equity at below floor price, down to zero, if made by a qualified bidder who has expressed serious intentions of rehabilitating Sipalay and maintaining ongoing operations. To protect against a speculative sale, APT could retain a lien on Sipalay's properties.

So that it may remain open to consider bids with prices below liquidation value, a minimum or reference price should not be set in the invitations to bid. If APT should decide to sell MMC's equity at below liquidation value, it should consider retaining an interest in Sipalay's upside potential to capture future gains should copper prices or output increase beyond expectations.

To assist qualified foreign investors who lack local partners, APT also should consider assuming an equity position in MMC to help satisfy the 60% Filipino ownership rule. If MMC under new ownership proves to be successful, APT could expect to sell its shares at a gain through either the public markets or negotiated sales to institutional investors or privatization funds.

Marketing

Considering the expressed interest in MMC by several groups and the immediate funding needs at Sipalay, the proposed sale of new shares should proceed as quickly as possible. The intended invitation to bid should be well-publicized in local newspapers and international mining journals in order to improve APT's chances of finding the best buyer and attracting the best price.

In spite of the existing interest, it may be difficult to sell a majority equity position in MMC considering its future prospects. Should acceptable offers fail to materialize by the first bid date, APT should consider a second invitation to be made several months later. In the meantime a promotion effort could be organized and carried out by PW/IPG in colaboration with PAH, with the objective of identifying suitable investors.

The program which PW/IPG and PAH would propose to carry out would begin with the preparation of a professionally prepared sales memorandum. Once approved by APT, the memorandum would be mailed to each target company and follow-up contacts would be made by telephone. To those responding positively, PAH's Evaluation Report would be made available. PW/IPG and PAH would offer to visit the offices of companies expressing serious interest, to make a more complete presentation. These companies also would be invited to visit MMC and to conduct due diligence.

Timing

To accommodate the interested potential investors in MMC but yet allow for a well-publicized public invitation, the first bid date should be set about ten weeks after the necessary bid invitations can be prepared. This time will be necessary for interested parties to conduct due diligence.

The steps and timing toward setting the first bid date are as follows:

- obtain legal opinions regarding sales strategy, including tax implications (by October 15);
- obtain APT, COP and other necessary approvals to proceed with recommended sales strategy (by October 31);
- establish specific evaluation criteria for selection of winning bid and set bid date (by November 30);
- invite public to bid and announce intended sale locally and in international journals (by November 30);

- obtain non-binding letters of intent (by December 31);
- close due diligence reviews by interested investors (by January 31);
- receive bids (by February 15);

Because Sipalay is not expected to generate sufficient funds from operations to cover its capital expenditure needs over the time required to complete the proposed sale, outside funding may need to be arranged for MMC. This situation should be closely monitored to ensure that Sipalay can operate normally during the sales period.

In the event the first invitation process does not yield an acceptable bid, a second effort should commence immediately thereafter. A promotion period of at least four months should be allowed before holding a second bid.

If the second invitation proves unsuccessful, APT should then consider a bulk sale of assets. This approach would offer added flexibility to new owners to make changes in the existing operation and may be the element needed to attract a qualified buyer.

IX. RECOMMENDED ACTION PLAN

Once APT has received the necessary approvals to carry out the sale of MMC as recommended herein, it should promptly organize a privatization task force to take responsibility for the actions necessary to complete the sale, including the following:

- engage legal counsel to assist in preparation of sales memoranda and bid invitations;
- assist MMC management in ensuring funding needs for the next six months of operations;
- make arrangements to write-off MMC debts to National Government and define liabilities to be conveyed;
- identify media to be used for making announcements, define formats and make arrangements;
- engage a team of auditors to prepare updated physical inventories and financial statements;
- assemble updated operating and cost data to make available during due diligence reviews by prospective investors, and prepare departmental presentations;
- study the market for Sipalay's assets under liquidation and confirm expected sales values.

The MMC privatization task force should be headed by an appropriate APT officer who would take responsibility for the sales process and include two full-time staff to prepare the groundwork. The task force also should count on a budget to complete its work. Costs to be covered will include those for promotional materials, announcements in periodicals, legal advice, auditors fees, travel to Sipalay site, travel to visit interested investors, and salaries of the two full-staff employees for at least six months.

PW/IPG will be available to APT during the privatization process, to provide advice and, if appropriate and so requested, carry out the promotion program as described above. PW/IPG's advisory services regarding MMC's privatization will automatically terminate once the sale is completed or APT suspends the sale effort.

ANNEX

PHILIPPINES
Maricalum Mining Corporation

A) Sipalay - lbs Cu sold:

1992	1993	1994	1995	1996	1997	1998	1999	2000
86.81	92.83	88.97	86.81	81.25	86.03	77.85	78.16	83.41

B) Sipalay Oper. Cashflows @ US$1.00/lb:

7.95	11.64	8.19	5.96	1.28	4.09	-1.19	7.3	13.94

			US$ MM	Pesos, MM
NPV@	20%	=	28.27	792
NPV@	15%	=	32.81	919
NPV@	25%	=	24.78	694

C) Sipaplay Oper. Cash Flows @ US $1.10/lb Cu:

16.63	20.92	17.09	14.64	9.41	12.69	6.6	15.12	22.28

			US$ MM	Pesos, MM
NPV@	20%	=	63.04	1765
NPV@	15%	=	73.81	2067
NPV@	25%	=	54.76	1533

D) Sipalay Oper. Cash Flows @ US$1.20/lb Cu:

25.31	30.21	25.98	23.32	17.53	21.30	14.38	22.93	30.62

			US$ MM	Pesos, MM
NPV@	20%	=	97.81	2739
NPV@	15%	=	114.80	3214
NPV@	25%	=	84.74	2373

ANNEX

E) Sipalay Oper. Cash Flows @ US$0.90/lb Cu:

-0.73	2.36	-0.71	-2.72	-6.85	-4.51	-8.98	-0.52	5.60

			US$ MM	Pesos, MM
			------	---------
NPV@	20%	=	-6.50	-182
NPV@	15%	=	-8.18	-229
NPV@	25%	=	-5.20	-145

F) Sipalay Capital Investment Outflows:

-17.73	-2.60	-7.90	-2.60	-8.80	-8.70	-2.10	-0.60	1.40

			US$ MM	Pesos, MM
			------	---------
NPV@	10%	=	-37.12	-1039
NPV@	20%	=	-29.31	-821

G)

	PV of Cash Flow x Operations			NPV after Inv. Outflows @ 10%		
	15%	20%	25%	15%	20%	25%
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$0.90	-229	-182	-145	-1268	-1221	-1185
$1.00	919	792	694	-120	-248	-345
$1.10	2067	1765	1533	1027	726	494
$1.20	3214	2739	2373	2175	1699	1333