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**REPUBLIC OF THE PHILIPPINES**

**Privatization Action Plan**  
**for Malangas Coal Corporation**

**REVISED DRAFT**

**Price Waterhouse**  
**International Privatization Group**

**March 26, 1992**

*Price Waterhouse*

*Price Waterhouse*  
International Privatization Group

Ms. Corazon R. Estrella  
Vice President  
Philippine National Oil Company  
PNOC Building, 7901 Makati Ave.  
Makati, Metro Manila, Philippines

March 26, 1992

Dear Ms. Estrella:

We are pleased to present the revised draft of the privatization action plan for Malangas Coal Corporation (MCC). We previously gave you the appraisal report prepared by our technical advisor, Pincock, Allen & Holt.

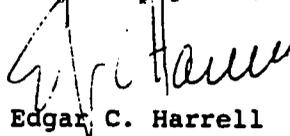
This draft is intended to serve as the basis for preparing the final privatization action plan following your discussions with the PNOC Board and the Committee on Privatization (COP). It incorporates comments received by PNOC during our meeting of February 5 in Manila.

The report has been prepared for the use of PNOC's management to assist in evaluating strategic privatization alternatives and to provide a basis for assessing offers made by potential investors. The report should not be released to any third parties, including prospective investors.

The analysis presented in the report is based entirely upon accounting and operational information, explanations and reports supplied to us and our technical consultant by PNOC. Price Waterhouse/IPG has not audited or independently verified any of the information supplied by PNOC.

We look forward to discussing this revised draft report with you and others at PNOC. I will be in Manila around March 30 and stay one week.

Sincerely yours,



Edgar C. Harrell  
Director, Operations and Programs  
International Privatization Group

**PRIVATIZATION ACTION PLAN**

**FOR**

**MALANGAS COAL CORPORATION**

**Executive Summary**

Malangas Coal Corporation (MCC, the Company) produces a high quality coal which suits the needs of nearby cement companies. The cost of its production, however, is significantly higher than that of imported coal, a reflection of its small scale and the complex geology of its mining operations. Current government policy, which limits the level of imported coal to encourage higher priced domestic production, provides the opportunity for MCC to operate profitably.

The Company's future financial viability and value are critically dependent on the continuation of current government policies to support domestic production. This support over the long term may be considered by potential purchasers of MCC to be highly risky. Because of this risk, MCC's projected financial returns may be heavily discounted by private investors.

Financial projections provided in the attached report suggest that under the current production, cost and price structure, MCC could experience difficulties in meeting future debt payments. A production schedule of 260,000 ROM (original design capacity) is necessary for MCC to meet its debt obligations and sustain profitable operations. This could be accomplished only through new capital improvements estimated at P170 million (US\$6.3 million). An earlier effort in 1984 using a US\$5.4 million ADB loan to increase production to 260,000 ROM failed to achieve this objective. Potential investors may therefore heavily discount the ability of the mine to achieve the intended output.

The going concern valuation of MCC's assets and equity are shown under several scenarios in the attached report. The scenarios differ on assumptions regarding the volume and duration of production and the price of MCC coal. The discount rates used to value the Company's assets have been risk adjusted, based on reasonable judgements regarding the probabilities of achieving the cashflows projected under each scenario. The resulting valuations suggest that the going concern value of MCC's existing assets to be slightly less than the value of its long-term debt (unadjusted). Under the assumptions used in these valuation scenarios, the market value of the shares of MCC, in "as is" condition, should be little to none.

The valuations do not reflect the "license value" of MCC, represented by the capability to earn profits from the sale or use of low cost foreign coal imported based on MCC's production. This "license value" is held by the Philippine Coal Corporation

(PCC), a subsidiary of PNOC, by virtue of its right to market MCC coal. If the new owners of MCC decide to market the coal directly, they will have the "license value" rights. The potential value of these rights is estimated between P23 million and P35 million (US\$0.9 million to US\$1.3 million) per annum.

PCC has existing long-term supply contracts with the cement companies. However, these contracts, which are renegotiated quarterly, allow for the cement plants to source supply elsewhere. With the price of Bunker fuel at present 93% of the fuel equivalency cost of coal, some of the cement plants have switched to Bunker fuel and are not renewing their contracts on a quarterly basis. One approach to enhance MCC's sales value is for PCC to secure long-term fixed volume and price supply contracts with the cement plants, equal to MCC's mine life. PCC then could back these long term supply contracts with a long-term purchase contract with MCC, guaranteeing MCC a fixed price for its coal. This arrangement can effectively reduce the risks to be taken by MCC's new owners and enhance the value of MCC. PNOC management, however, was not optimistic about this possibility.

The value of MCC's equity would also be enhanced by reducing its long-term debt. The entire long-term debt of \$15.2 million is owed to the Asian Development Bank and is classified as official debt (PNOC, not MCC, is the borrower with the Republic of Philippines as guarantor). This debt cannot be assumed or transferred to the private sector purchaser and PNOC must take action to retire this debt should it proceed with privatization. The value of MCC's assets as a going concern without the long term debt obligation to the ADB ranges from a low of P210 million to a high of P380 million.

PW/IPG's recommended method of privatizing MCC is through an open bidding process for 100% of its shares. The shares would be offered with PNOC retaining the obligation to repay the ADB long term debt obligation. The proceeds from the sale could be used to offset, in part or in whole, the cost to PNOC of retiring the ADB debt.

## ABBREVIATIONS AND ACRONYMS

FOB	Freight on Board
MCC	Malangas Coal Corporation
MM	Million
P	Philippine Peso
p.a.	Per Annum
PAH	Pincock, Allen & Holt
PCC	Philippine Coal Corporation
PNOC	Philippine National Oil Company
ROM	Run of Mine
tpa	Tonnes per Annum

### Exchange Rate

Used in this report: Pesos 27.00 = US\$1.00

**REPUBLIC OF THE PHILIPPINES**  
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**Appendix:**

**Malangas Coal Corporation - Operational and Financial Review; Pincock, Allen & Holt; December 1991.**

## **I. INTRODUCTION**

Price Waterhouse (PW) has been contracted by the United States Agency for International Development to assist the Philippine National Oil Company (PNOC) in preparing the privatization of Malangas Coal Corporation (MCC, the Company), a wholly-owned subsidiary.

The International Privatization Group (IPG) of Price Waterhouse has undertaken to prepare a Privatization Action Plan for MCC and thereafter, if appropriate, assist PNOC with the execution of the plan recommended therein including assistance with the preparation of an information memorandum and promotion of the privatization proposal among potential investors.

To assist in the evaluation of MCC's operations, PW/IPG engaged Pincock, Allen & Holt (PAH), an international mining consulting company based in Lakewood, Colorado (U.S.A.). A technical team from PAH and PW/IPG visited the Company's operations in Malangas and met in Makati with PNOC staff responsible for MCC in November 1991. PAH's assessment of the Company and its operations are contained in their report, MCC - Operational and Financial Review, dated December 1991, a copy of which was presented to PNOC management in February, 1992 along with a draft Privatization Action Plan.

This report constitutes a revised Privatization Action Plan for MCC. It is based on the work of IPG's appraisal team comprising technical specialists from PAH and IPG staff and consultants, relying on material provided by PNOC and MCC. The report also reflects the comments and opinions from PNOC staff representing PNOC and MCC on the early draft.

## II. PROSPECTS

### A. THE MARKET

When the MCC project was conceived about 95% of The Philippines energy needs were met from imported crude oil. The Government in an effort to reduce their foreign exchange outflows and reduce their deficit, encouraged manufacturers to switch from oil to coal. By Government directive, the three cement plants in Mindanao converted from oil fired to coal fired, which created the justification for the MCC project.

MCC produces coal to supply the Philippine market, which consumes about 2.4 million tonnes annually. Total Filipino production of coal is around 1.3 million tonnes p.a. and thus about 45% of domestic demand must be supplied by foreign coal (Appendix, Table 8-1). Filipino consumption of coal is projected to grow more rapidly than local supply and by 1996 imports are expected to represent as much as 60% of total demand (Appendix, Table 8-2). MCC's annual production of clean coal, at a current level of around 140,000 tonnes p.a., represents about 11% of total domestic supply and less than 6% of domestic consumption.

Imported coal is generally cheaper than locally produced coal of similar quality. Government regulation provides support for Filipino producers by limiting coal imports to a proportion of local production. These regulations assure a market for Filipino coal by requiring importers to purchase locally produced product. For every tonne of imported coal, one tonne of domestic coal must be used. The price the end user pays (for imported and domestic coal) is usually related to the marginal cost of domestic production. If imported coal is purchased at a lower price than domestic coal, the supplier captures this difference as profit. Prices in some instances are adjusted if local production is unable to keep up with demand or the differential with foreign prices becomes untenably high.

The requirement to use local coal creates an opportunity for Filipino importers to earn profits from the purchase and resale of foreign coal. Suppliers who purchase domestic coal and also import to satisfy their needs benefit from a lower blended cost. The requirement to use local coal gives Filipino producers a "license value" for the right to import lower-cost coal. This "license value" should be determined by the present value of future profits from the imports permitted by local production.

Three cement plants located in Mindanao purchase the entire output from MCC's coal mines. Because MCC's coal suits their manufacturing processes and considering the closeness of the mine to their plants, the three cement companies had represented a stable, long-term base of demand for MCC's production. The

companies signed long-term purchase contracts with PNOC's marketing subsidiary, Philippine Coal Corporation (PCC) for a supply of MCC and imported coal. These contracts are renegotiated on a quarterly basis. If the companies or PCC do not agree on either price or quantities, neither is bound for that quarter to honor the contract. At the end of the next quarter, the contract obligates them to reenter into negotiations.

When oil prices were high in the early and mid 1980's, coal was an attractive alternative. Now, with low oil prices, Bunker fuel is about 7% lower in cost than coal on a fuel equivalent basis. This has prompted one of the three cement plants to switch to Bunker fuel. While the cement plant does have a long-term supply contract with PCC, there is no obligation to purchase the coal.

Under the present arrangements, PCC pays MCC a FOB price (Malangas pier) of P1,750/tonne (US\$65/tonne), and assumes responsibility for blending and delivering the coal. The margin charged by PCC between the price received from the cement companies and the price paid to MCC represents the approximate cost of blending and delivery. PCC instead earns a profit from the sale of lower priced imported coal which is sold at the higher domestic price.

Before 1986, only PNOC was able to import coal but in recent years, it is now possible for anyone to import coal. The only limitation is that for each ton of imported coal, one ton of domestic coal must be sold. This requires that an importer of coal has access to a domestic supply.

## B. THE COMPANY

MCC produces high quality coal (i.e. bituminous with high thermal content), of a type which is in demand by certain industrial processes. MCC is the only significant producer of high thermal coal in the Philippines and its coal therefore exacts a slight price premium in the market.

As reported by PAH (Appendix, Section 7.0), MCC's mine and plant operations have operated for ten years and are well-established. Management and workers are capable and experienced. Operations are relatively efficient although capital improvements will be needed soon to maintain production at the current levels. In PAH's judgement, however, the profitability of the Company's operations can be improved substantially by restoring production capacity to the design rate of its existing facilities. With capital investments of about P170 million (US\$6.3 million), the coal output could increase by 45%, to 260,000 ROM coal p.a. If the investment is not made, PAH concludes that MCC's current operating cost ratios cannot be maintained and the plant will become less competitive. These investments would enhance the value of MCC's existing assets and should be considered by the new owners.

MCC's labor costs are high compared to private mine operations. The high labor charge is due to two factors: excessive manpower and wage scales based on the higher rates payable to PNOC employees. Labor in newer mines is done on a piece meal basis, i.e. laborers are reimbursed for the tonnage extracted independent of time, while MCC's pays its labor on an hourly scale. A new owner could reduce his operating labor costs by 1) a reduction of mine staff 2) placing workers on a piece meal basis or 3) offer lower wage rates in line with other coal mines rather than PNOC rates. If labor is released through the privatization of MCC, all benefits under collective bargaining agreements shall be complied with, which, according to PNOC management, amounts to about P48 million (\$1.8 million) for MCC. A potential purchaser would adjust the purchase price to account for this accrued liability.

The delivered cost to the cement companies of MCC's coal, currently at about P1,919/tonne (US\$71/tonne) is significantly higher than that of imported coal of a similar quality which now is at about P1,640/tonne (US\$61/tonne). MCC's costs are high due to its small scale compared with those of the world's coal exporters, high labor rates and the complex geology of its underground mining operations.

Coal reserves at Malangas are sufficient for about 12 years of production at the current lower production rate. At the expanded rate of 260,000 tpa, the life of the mine however would be reduced to just over eight years. With the incorporation of the nearby coal reserves at Little Baguio, operations could be extended an additional nine years (at the expanded rate) to thirteen years (at the present rate).

The Company as of December 1991, had two foreign currency long-term loans from the Asian Development Bank (US\$14.0m and US\$5.4m respectively). These loans were made to PNOC as the borrower with the Government as guarantor, which were onlent to MCC. The current outstanding balance is equivalent to about P410 million (US\$15.2 million). Since these are official Multilateral loans which require a government guarantee, the loans cannot be assumed by a private sector operator (unless the Government is willing to retain the guarantee). ADB loans often are securitized by the assets of the company, and if so, sale of the company would prompt repayment of the loans.

The private sector department of the ADB, (which makes equity investments and lends to private sector companies without a government guarantee) advised that replacing official debt with private sector debt would only perpetuate the difficulties confronting MCC in their loan repayment. They did not express an interest in providing new equity or loans to MCC, since without foreign exchange revenue, MCC would continue to incur potential exchange rate losses. This has been its problem to date and has

placed a severe burden on MCC's ability to reduce substantially its outstanding principal balance.

### C. CONCLUSIONS

The prospects for a successful privatization of MCC depends on the perception of potential purchasers of the risk of continued coal import protection and the prospect of market erosion because of less costly bunker fuel. Without the coal import protection, the price of MCC's coal could drop as much as 14%, to the current price of imported coal. A decrease of this magnitude would severely impair the value of MCC as a going concern. Prices offered by potential purchasers for MCC therefore may reflect a heavy discount to account for this risk.

PNOC may wish to consider mitigating the coal price risk by offering to provide, through PCC, a long-term fixed-price offtake agreement with MCC as a condition of its sale. Such an agreement would serve to transfer the price and supply risk to PCC, which can hedge this risk through their importing, blending and marketing activities. PCC eventually may be able to transfer the offtake risk to the consumer cement companies through a renegotiation of its supply contracts. The existing supply contracts which PCC has with the cement companies can be abrogated on a quarterly basis which would place the risk with PCC. A revised arrangement would reduce the risks to potential purchasers of MCC principally to production risks and could substantially enhance its sales value.

However, if PCC cannot secure long-term fixed price offtake agreements, PCC has no value. The new purchasers of MCC, by virtue that they have access to a domestic supply can then import foreign coal and retain the profits for themselves. PCC will be without an assured supply of domestic coal and, under current GOP regulations, will not be able to import foreign coal which it could then sell at a premium.

### **III. VALUATION**

#### **A. ASSET TO BE SOLD**

The sale of MCC as a going concern should include all the assets which it owns and requires to operate as such, including an adequate initial working capital balance. PCC is not part of the sale. For the purpose of valuation, MCC's assets are considered to comprise all its existing fixed assets, net working capital and operating rights. Any deficiencies in working capital or fixed assets would require compensation by MCC's new owners and would reduce the value of MCC as a going concern. Surplus assets (i.e. assets not related to operations or assets in excess of those needed), on the other hand, might be sold separately for additional value.

Individual MCC liabilities, current or long-term (excluding debt), may be either included or excluded with the sale, depending on the preferences of the seller and the buyer. An example would be the cost to pay accrued termination liabilities of existing workers. Liabilities incurred in the normal course of business (such as suppliers credits and taxes payable) and those collateralized by its assets, should form part of the sale. Other liabilities either can be settled prior to sale or transferred to the seller for future settlement.

Intercompany accounts (both assets and liabilities) which are not on commercial terms should be cleared, to the extent possible, prior to sale. Alternatively, adjustments to the sales price may be made to reflect any additional value or cost represented by these items.

The asset to be sold and thus requiring valuation is MCC's net asset, or equity, position at the time of sale. The value can be determined by deducting the value of the MCC's liabilities (outside those netted in working capital) from the value of its assets (as herein defined) at the time of sale. Whether the Company's equity is sold in total or in part, a reference value is needed to establish a basis for negotiation.

#### **B. METHODOLOGY**

Several methodologies may be considered for deriving the value of MCC's equity including the following:

- \* book value multiples,
- \* replacement value of assets,
- \* price/earnings multiples,
- \* comparable sales values,
- \* liquidation value, and
- \* discounted cashflows.

The method considered by PW/IPG to be the most appropriate for valuing a long-term majority equity position in MCC is the discounted cashflows, or present value, method. Among the methods listed above, it is the one which best reflects both the future returns generated by MCC's operations and the future capital outlays necessary to sustain such returns over the long term.

The present value method determines the going concern, or financial value, of MCC's assets. The financial value is the present value of the net cashflows expected to be generated by the continued efficient operation of the assets valued. To determine the value of the gross assets, i.e. assuming no debt, cashflows from operations should be measured before interest expense but net of taxes. These cashflows are then discounted by a rate which reflects the after-tax return (adjusted for risk) expected by long-term investors in these assets.

Other methodologies are sometimes used to determine value but do not accurately reflect expected returns over the long-term. Book value and replacement value, for example, are based on investment costs, and not economics, and thus offer no indication of financial value. Price/earnings multiples do not account for changes in profitability over time or future investment requirements. Comparable sales values are imprecise measures because of the many differences in the nature of the assets used as comparisons in terms of their sale. Liquidation value may serve as an appropriate reference price in the event that the Company cannot be sold as a going concern.

### C. ASSUMPTIONS

Price Waterhouse's valuations of MCC under several scenarios uses the base financial projections prepared by PAH (Appendix, Section 9.0). PAH's projections make the following key assumptions:

- i) the current cost and price structure will be maintained over the life of the operations;
- ii) an initial investment of P170 million over three years (US\$6.3 million) will be made to expand production to design capacity, and
- iii) the Integrated Little Baguio coal reserves will be incorporated into MCC's operations and some P470 million (US\$17.4 million) invested beginning in 1997, to put these reserves into production.

The above cashflow projections form the Base Case, and are attached as Annex 1. Cashflows also were projected under the following scenarios, and are attached in the annexes indicated:

- Case A: Existing cost and price structure, but no expansion of production, and no additional coal reserves (Annex 2).
- Case B: Existing cost and price structure, with production expansion but no additional reserves (Annex 3).
- Case C: Prices dropped to import cost, no expansion of production, and no additional reserves (Annex 4).
- Case D: Base Case with coal prices increasing by 2% p.a. (Annex 5).
- Case E: Prices dropped to import cost, with production expansion, and with additional reserves (Annex 6).

The Company's estimated net working capital position at the end of 1990 stood at about P70 million (US\$2.6 million). This amount represents about 35% of MCC's yearly cash operating costs and should be adequate for sustaining operations. It has been assumed for this valuation, that this level of working capital is maintained at the time of sale. PW/IPG assumes that all accounts between the Company and PNOC which are not on ordinary business terms will be cleared prior to sale. Thus MCC's valuation will not be subject to adjustments for these items.

#### D. CASHFLOW PROJECTIONS

Results of the Base Case cashflow projections for the next five years of operation are summarized below. These cashflows are discounted on an after-tax basis and in real terms.

**Malangas Coal Corporation**  
**Projected Cashflows - Base Case**  
**(Pesos, million)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Total Sales	351	351	351	351	351
Cash Operating Costs	200	200	200	200	200
Taxes	<u>35</u>	<u>33</u>	<u>32</u>	<u>32</u>	<u>32</u>
After-tax Cash Gener.	116	118	119	119	119
After-tax Debt Serv.	89	91	93	94	58
Capital Investments	<u>84</u>	<u>57</u>	<u>30</u>	<u>3</u>	<u>3</u>
Net Cashflow	(57)	(30)	(4)	22	58
Debt Serv. Coverage (x)	1.3	1.3	1.3	1.3	2.0

Under the Base Case scenario, MCC is expected to cover comfortably its debt payments as scheduled and generate a profit

for its owners. Capital investments to increase production, however, will require outside financing, as shown above.

At its present rate of production, however, MCC may experience difficulties in meeting future debt obligations as shown in the Case A scenario, the results of which are summarized below.

**Malangas Coal Corporation**  
**Projected Cashflows - Case A**  
**(Pesos, million)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Total Sales	243	243	243	243	243
Cash Operating Costs	158	158	158	158	158
Taxes	<u>16</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
After-tax Cash Gener.	69	70	70	71	71
After-tax Debt Serv.	89	91	93	94	58
Capital Investments	<u>42</u>	<u>28</u>	<u>15</u>	<u>3</u>	<u>3</u>
Net Cashflow	(62)	(49)	(37)	(27)	10
Debt Serv. Coverage (x)	0.8	0.8	0.8	0.8	1.2

The conclusion of the above analysis suggests that MCC will need to expand its production level to generate sufficient funds to meet its scheduled debt obligations. Outside funding will be required. Outside funding also will be required beginning in 1997, to develop the Little Baguio reserves.

**E. DISCOUNT RATES**

Following the methodology described above, PW/IPG has derived going concern valuations for MCC's existing assets and equity under the various scenarios listed above. In preparing these valuations, PW/IPG has considered that the risk of achieving the cashflows projected should be different for each scenario.

Valuations of MCC's assets are derived using discount rates based on a judgement regarding the risk associated with each scenario, as shown below.

Base: High/Moderate risk, as large investments are required and continuation of current cost and price structure is assumed over the long-term (17 years).

Case A: Moderate risk, as no large investments are involved but continuation of current cost and price structure is assumed over the long-term (12 years).

- Case B: Moderate risk, with profitable initial investments but no development of additional reserves, and assumed continuation of current cost and price structure over long-term (12 years).
- Case C: Low risk, with no large investments, full drop in coal prices to import costs, and no development of additional reserves (12 years).
- Case D: High risk, with large investments and prices increasing at 2% p.a. (17 years).
- Case E: Moderate/Low risk, with large investments but with full drop in coal prices to import costs (17 years).

As the cashflows which will be discounted are on an after-tax basis and in real terms, the discount rate to be used should be considered to be a real and after-tax rate. The following rates have been applied to the cashflows projected to be generated by MCC's operations:

High	-	25%
High/Moderate	-	20%
Moderate	-	15%
Moderate/Low	-	13%
Low	-	10%

The projected capital investment outflows have been discounted at a rate which is less than those used for discounting cashflows from operations. A lower rate has been used because projections of investment outflows are subject to less uncertainty than the projections of cashflows from operations. A difference of 5% generally is used for determining the valuations presented below, but with a minimum rate of 10% in reflection of the opportunity cost of capital.

Additional capital investments which may increase production may be heavily discounted by potential investors. The second ADB loan is a case in point. This loan of \$5.4 million to restore production to above 260,000 ROM has not achieved its intended result.

#### F. VALUATIONS

The resulting valuations of MCC's assets are shown in the table below for each scenario. The value of its long-term debts is deducted (at book value) to derive the value of the equity.

**Malangas Coal Corporation**  
**Present Values of Existing Assets and Equity**  
**(Pesos, million)**

	<u>Base Case</u>	<u>Case A</u>	<u>Case B</u>	<u>Case C</u>	<u>Case D</u>	<u>Case E</u>
Assets	250	270	380	210	270	230
Debt	<u>410</u>	<u>410</u>	<u>410</u>	<u>410</u>	<u>410</u>	<u>410</u>
Equity	(160)	(140)	(30)	(200)	(140)	(180)

PW/IPG has attempted to reflect the risk of achieving the projected cashflows under each scenario through the discount rates used. The results indicate values for the Company's assets from a low of P210 million (US\$7.8 million), to a high of P380 million (US\$14.1 million). At best, the going concern value of its assets almost covers the outstanding value of its debts. The highest value comes from the scenario assuming expanded production under the continuation of the present cost and price structure, but no further development of Little Baguio.

The above going concern values for MCC however do not reflect its "license value," i.e., the value of the future profits which can be earned from the sale of the coal imports permitted based on its production. The profit margin earned on imports of similar quality is now around P270/tonne (US\$10/tonne). Assuming matching imports at a 1:1 ratio and allowing for administrative expenses and taxes, the profit potentially earned from MCC's production would be around P35 million (US\$1.3 million) per annum at the expanded rate of output, and about P23 million (US\$0.9 million) at the present rate. Discounted at 25% p.a. for ten years, these profits would be worth P125 million (US\$4.6 million) and P82 million (US\$3.0 million), respectively.

	<u>Base Case</u>	<u>Case A</u>	<u>Case B</u>	<u>Case C</u>	<u>Case D</u>	<u>Case E</u>
Assets	250	270	380	210	270	230
License Value	<u>125</u>	<u>82</u>	<u>82</u>	<u>82</u>	<u>125</u>	<u>125</u>
Enhanced Value	375	352	462	292	395	355

The above revised asset valuation is exclusive of existing debt and liabilities to existing employees and does not consider how a new owner will finance (debt or equity) the proposed new capital requirement of P170 million (US\$6.3 million) for current capacity expansion and P470 million (US\$ 17.3 million) for the Little Baguio coal reserve development.

Final determination of the value of MCC's equity should in any case be subject to possible adjustments due to any significant changes in its net working capital position, the liabilities to

employees and the value of long-term loans from those assumed outstanding at the time of sale.

#### **IV. RECOMMENDED PRIVATIZATION STRATEGY**

##### **A. OBJECTIVES**

PNOC's primary objective is to sell its majority ownership and control of MCC to private investors in a transparent, open manner and at a fair price.

To the extent possible, PNOC would like to reduce or entirely eliminate its outstanding long term debt to the ADB incurred on behalf of MCC.

As part of its sales strategy, PNOC will want to broaden the market of potential buyers as much as possible to ensure a competitive process and improve the chances of obtaining the best price for MCC.

##### **B. OPTIONS**

The privatization of MCC can be accomplished through several different means including the following: (i) sale of existing shares; (ii) dilution through the sale of new shares; (iii) bulk sale of MCC assets and (iv) management contract with private operators. The Company is not listed on the public stock exchanges and privatization via a public offering of shares is probably not feasible within a reasonable time frame.

Because PNOC's mainstream businesses have little relation to MCC's operations, there appears to be no strategic reason for PNOC to retain a shareholding interest in the Company. PNOC could choose to remain as a minority investor out of portfolio investment considerations, but the limited liquidity of such a residual investment should make this choice unadvisable. An outright privately negotiated sale of 100% of MCC's shares is thus the recommended option for privatization.

##### **C. PRICING**

MCC's equity has little or negligible value (with or without license value) if the existing long term debt is included with the sale. MCC should be priced on its asset value and PNOC should assume the responsibility for retiring the ADB debt from the sale proceeds of MCC. ADB has indicated that there is a prepayment penalty of 2.5% of the outstanding loan amount for prepayment. If PNOC decides to prepay the ADB debt, they should seek a waiver to avoid payment of the prepayment penalty.

PNOC should define a minimum acceptable price for the sale of its shares in MCC to simplify bid evaluation. The minimum acceptable price, or floor price, should represent the value of PNOC's next best option, i.e. to retain ownership of MCC. Bids of values which are less than the floor price should in principle be

rejected, as PNOC presumably could derive a greater value by continuing to own and operate the Company.

PNOC's evaluation of a minimum bid price should consider such factors as continuing foreign exchange losses on servicing MCC's debt to the ADB and the potential market loss if coal price support is revoked.

The value of MCC's assets will also depend on whether PNOC is willing to provide offtake price support. Without it, the equity has little to no value.

Should PNOC decide not to provide a fixed-price offtake agreement or assume part of the Company's debt, it nonetheless should consider offering its existing shares without reference to a minimum price, for sale to the highest bidder. Since the Company's equity is considered to be of little value, as indicated above, any positive price by a qualified bidder who agrees to take MCC in "as is" condition with all its existing debts should be accepted. This would obligate the new owners to pay off the existing ADB debt before the transfer of ownership. If PNOC assumes the ADB debt, a good estimate of the minimum price would be the Case C Scenario price of P210 million.

#### **D. SALES TERMS**

Terms of any eventual sale will ultimately be privately negotiated between PNOC and the successful bidder taking into account their requirements and financial situations. PNOC can improve the chances of completing a sale at a fair price by offering flexible sales terms.

Recommended terms should include a minimum initial cash payment of no less than 15% of sales price in order to ensure the financial commitment of the buyer. With the recent COP guidelines which require all cash sales, the flexibility of PNOC to offer incentives such as promissory notes is not possible. PNOC however, can include installment payments as long as payments are in cash.

#### **E. PROCESS**

To ensure an open and fair privatization process, MCC's shares should be offered for sale via a public bid. Once it is ready to proceed with the sale, PNOC should broadly announce its intention to sell MCC and invite all interested parties to participate in the process. A broad participation of interested investors is the best guarantee for obtaining the best possible price in the market.

As part of the process, potential investors should be requested to express in writing and submit credentials establishing their

qualifications by a pre-established deadline. Shortly after this date, PNOC should pre-qualify interested parties based on their business standing, technical capabilities and financial position.

Once qualified, interested parties should be invited by PNOC to conduct a due diligence review of the Company and its operations prior to bid date. A standard set of operating and financial data should be prepared by MCC management to make available to potential investors during this phase. A well-prepared data book will be needed to ensure that all investors are given the same set of information on which they will base their bid.

Bid date should be set allowing sufficient time for interested investors to complete the due diligence phase. A minimum refundable deposit should be required with the submission of each bid as an indication of the good faith and financial capability of the bidder. If all bidders are pre-qualified and sales terms are uniform, selection of the winning bid then can be based solely on price.

#### **F. SALES PROMOTION**

The sale of MCC's shares should be promoted and targeted toward potential Filipino investors who could add value to the Company by providing the capital necessary to enhance productivity and operate the Company efficiently. Private Filipino mining groups are likely to be the most efficient operators and should be targeted for promotion. The cement companies which buy the Company's coal are likely to be the most strategically interested in the purchase of MCC and also should be approached.

The promotion effort should include the preparation of an information memorandum describing the proposed opportunity. This should be mailed directly to the above targeted groups and made generally available to all parties expressing interest. Personal presentations to the targeted groups should follow distribution of the memorandum. A draft term sheet generally describing the terms and conditions of the proposed sale should be prepared and presented to those interested parties which are qualified by PNOC.

#### **G. TIMING**

A target bid date should be set by PNOC at the time it announces its intention to sell MCC's shares. The date should be set considering the time required to complete the process recommended above. About one month should be reserved for the preparation of the information memorandum and draft term sheet. An additional two months should be spent on carrying out the promotion effort among potential investor groups. Around two more months may be needed to allow for due diligence reviews by interested parties.

The Bid date thus can be planned for about five months from the date the sales effort is initiated.

The timing of the sale also should consider that market conditions are likely to be more favorable once the current national election process is completed by mid-year. Thus the bid date could be timed for sometime during the third quarter of 1992.

## **VI. RECOMMENDED ACTION PLAN**

Should PNOc decide to proceed with the privatization of MCC as recommended herein, it should appoint a special task force to assume responsibility for executing the sale of MCC. The task force should be guided by a technical committee comprising senior PNOc staff and to undertake the following specific tasks:

- i) engage the services of financial advisors to assist with the preparation of the information memorandum and execution of the promotion effort;
- ii) engage the services of legal counsel to assist in the preparation of the draft term sheet and formal bid documents;
- iii) submit announcements in the local media advising of the intention to sell MCC's shares, describing the process, disclosing the target bid date and inviting all interested parties to submit a formal letter of interest to PNOc;
- iv) promote the sale among targeted investor groups, including presentations describing the Company and the proposed terms of sale;
- v) evaluate and pre-qualify interested investors;
- vi) manage the due diligence process;
- vii) manage the bid process, and
- viii) evaluate bids and recommend selection.

The task force should comprise two PNOc professionals who are knowledgeable of the Company and experienced in the areas of financial structuring and negotiations. The task force should be allowed a budget for covering the costs of making public announcements, engaging legal counsel, preparing promotional materials and conducting promotional visits.

The International Privatization Group (IPG) of Price Waterhouse will offer to act as financial advisor to PNOc during this process. IPG would work closely with the PNOc task force to ensure that the recommended sales strategy is successfully executed. IPG's services will automatically terminate once the sale is completed or PNOc suspends its privatization efforts.

Malangas Coal Corporation

Annex 1

Cashflow Projections  
Base Case

Page 1

I Model Inputs:

Annual Prod. (tons,000):	260.0	Recov. Reser. (tons,000):	
Plant Yield:	77%	Malangas	2,190
Annual Sales (tons,000):	200.2	ILB	2,410
Sales Price/ton (US\$):	65.0	Total	4,600
Depreciable Assets (\$,MM):	10.0	Mine Life (yrs.):	
Exchange Rate (Pesos/US\$):	27.0	Malangas	8.42
Income Tax Rate:	30.0%	ILB	9.27
		Total	17.69

II. Cashflows from Operations:

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	351	351	351	351	351	351	351	351	351	351	351	351
Prod. Tax @ 2%	7	7	7	7	7	7	7	7	7	7	7	7
Var. Op Costs	132	132	132	132	132	132	132	132	134	134	134	134
Fixed G & A	61	61	61	61	61	61	61	61	61	61	61	61
Cash Op Profit	151	151	151	151	151	151	151	151	149	149	149	149
Depreciation												
Existing Assets	27	27	27	27	27	27	27	27	27	27		
New Assets	8	14	17	17	18	46	58	60	63	63	64	56
Total	35	41	44	44	45	73	85	87	90	90	64	56
Taxable Profit	115	110	107	106	106	78	66	64	60	58	65	63
Taxes	35	33	32	32	32	23	20	19	18	17	25	28
After-tax Profit	81	77	75	75	74	54	46	44	42	41	50	65
All-tax Cash Gen.	116	118	119	119	119	127	131	132	131	131	123	121
Capital Costs	84	57	30	3	3	283	117	25	25	7	3	3
All-tax Interest	22	18	14	9	5	3	2	1	0			
Loan Amortizations	67	73	79	85	53	17	18	20	0			
All-tax Debt Serv.	89	91	93	94	58	20	21	21	0			
Cash All Capital Costs & Debt Serv	(57)	(30)	(4)	22	58	(176)	(7)	86	106	124	120	118
Debt Ser Cover (x)	1.30	1.30	1.26	1.26	2.04	6.35	6.37	6.35				

III. Present Values:

Alt-tax Cashflows from Oper.

Capital Costs

Dis. Rate	P, MM	US\$, MM	Dis. Rate	P, MM	US\$, MM
10%	978	36.2	10%	405	16.0
15%	735	27.2	15%	326	12.1
20%	576	21.4	20%	272	10.1
25%	472	17.5			

Value of Assets

PV Cash Gen. - PV Capital Costs  
(Pesos, MM)

	Dis. Rates for Cash Gen.:				
	10%	15%	20%	25%	
Dis. Rates	10%	572	330	-	-
for Cap	15%	-	407	251	-
Costs	20%	-	-	307	200

Value of Equity

(Pesos, MM)

	Hi Est.	Lo Est.
NPV Assets	368	279
Debt Value	410	410
Equity Value	(42)	(132)

Case A Current prices; Initial Capital Investments; No additional Reserves

I. Model Inputs:

Annual Prod. (tons,000):	180.0	Recov. Reser. (tons,000):	
Plant Yield:	77%	Malangas	2,190
Annual Sales (tons,000):	138.6	ILB	2,410
Sales Price/ton (US\$):	65.0	Total	4,600
Depreciable Assets (\$,MM):	10.0	Mine Life (yrs.):	
Exchange Rate (Pesos/US\$):	27.0	Malangas	12.17
Income Tax Rate:	30.0%	ILB	13.39
		Total	25.56

II Cashflows from Operations:

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	243	243	243	243	243	243	243	243	243	243	243	243
Prod. Tax @ 2%	5	5	5	5	5	5	5	5	5	5	5	5
Var. Op. Costs	92	92	92	92	92	92	92	92	134	134	134	134
Fixed G & A	61	61	61	61	61	61	61	61	61	61	61	61
Cash Op. Profit	85	85	85	85	85	85	85	85	43	43	43	43
Depreciation:												
Existing Assets	27	27	27	27	27	27	27	27	27	27		
New Assets	4	7	9	9	9	9	10	10	10	6	4	4
Total	31	34	36	36	36	36	37	37	37	33	4	4
Taxable Profit	54	51	50	50	49	49	49	49	6	9	39	39
Taxes	16	15	15	15	15	15	15	15	2	3	12	12
After-tax Profit	38	36	35	35	35	34	34	34	4	7	27	27
After-tax Cash Gen.	69	70	70	71	71	71	71	71	42	40	31	31
Capital Costs	42	28	15	3	3	3	3	3	3	3	3	3
After-tax Interest	22	18	14	9	5	3	2	1	0			
Loan Amortizations	67	73	79	85	83	17	18	20	0			
After-tax Debt Serv	89	91	93	94	88	20	21	21	0			
Cash after Capital Costs & Debt Serv	(62)	(49)	(37)	(27)	10	48	48	47	39	37	28	28
Debt Ser Cover (x)	0.77	0.77	0.76	0.75	1.21	3.53	3.45	3.42				

Case A: Current prices; Initial Capital Investments; No additional Reserves

IV. Present Values:

After-tax Cashflows from Oper.			Capital Costs		
Dis. Rate	P, MM	US\$,MM	Dis. Rate	P, MM	US\$,MM
10%	429	16.9	10%	84	3.1
15%	349	12.9	15%	76	2.8
20%	292	10.8	20%	69	2.6
25%	246	9.2			

Value of Assets

PV Cash Gen. - PV Capital Costs  
(Pesos, MM)

	Dis. Rates for Cashflow Gen.:			
	10%	15%	20%	25%
Dis. Rates for Inv. Outflows	10%	15%	20%	25%
	345	265	-	-
	-	273	216	-
	-	-	222	179

Value of Equity

(Pesos, MM)

	Hi Est.	Lo Est.
NPV Assets	269	219
Debt Value	410	410
Equity Value	(141)	(192)

## Cashflow Projections

## Case B: With Capital Improv.; No Additional Reserves

## I. Model Inputs

Annual Prod. (tons,000):	260.0	Recov. Reser. (tons,000):	
Plant Yield:	77%	Malangas	2,190
Annual Sales (tons,000):	200.2	ILB	2,410
Sales Price/ton (US\$):	65.0	Total	4,600
Depreciable Assets (\$ MM):	10.0	Mine Life (yrs.):	
Exchange Rate (Pesos/US\$):	27.0	Malangas	8.42
Income Tax Rate:	30.0%	ILB	9.27
		Total	17.69

## II. Cashflows from Operations:

	1992	1993	1994	1995	1996	1997	1998	1999
Sales	351	351	351	351	351	351	351	351
Prod Tax @ 2%	7	7	7	7	7	7	7	7
Var. Op. Costs	132	132	132	132	132	132	132	132
Fixed G & A	61	61	61	61	61	61	61	61
Cash Op Profit	151	151	151	151	151	151	151	151
Depreciation								
Existing Assets	27	27	27	27	27	27	27	27
New Assets	8	14	17	17	18	18	18	18
Total	35	41	44	44	45	45	45	45
Taxable Profit	115	110	107	106	106	106	106	106
Taxes	35	33	32	32	32	32	32	32
After-tax Profit	81	77	75	75	74	74	74	74
After-tax Cash Gen.	116	118	119	119	119	119	119	119
Capital Costs	84	57	30	3	3	3	3	3
After-tax Interest	22	18	14	9	5	3	2	1
Loan Amortizations	67	73	79	85	83	17	18	20
After-tax Debt Serv.	89	91	93	94	58	20	21	21
Cash all Capital Costs & Debt Serv	(57)	(30)	(4)	22	58	96	96	95
Debt Ser Cover (x)	1.30	1.30	1.28	1.26	2.04	5.93	5.79	5.74

## Case B. With Capital Improv.; No Additional Reserves

## IV Present Values:

## All-tax Cashflows from Oper.

Dis. Rate	P, MM	US\$,MM
10%	831	23.4
15%	530	19.6
20%	453	16.8
25%	393	14.5

## Capital Costs

Dis. Rate	P, MM	US\$,MM
10%	153	5.7
15%	141	5.2
20%	131	4.9

## Value of Assets

PV Cash Gen. - PV Capital Costs  
(Pesos MM)

	Dis. Rates	Dis. Rates for Cash Gen.:			
		10%	15%	20%	25%
	10%	478	377	-	-
for Cap.	15%	-	389	312	-
Costs	20%	-	-	322	262

## Value of Equity

(Pesos, M!4)

	Hi Est.	Lo Est.
NPV Assets	383	317
Debt Value	410	410
Equity Value	(27)	(93)

Malangas Coal Corporation

Annex 4

Cashflow Projections

Page 1

Case C: No Import Protect.; No Capital Improv.; No Additional Reserves

I. Model Inputs:

Annual Prod. (tons,000):	180.0	Recov. Reser. (tons,000):	
Plant Yield:	77%	Malangas	2,190
Annual Sales (tons,000):	138.6	ILB	2,410
Sales Price/ton (US\$):	55.0	Total	4,600
Depreciable Assets (\$,MM):	10.0	Mine Life (yrs.):	
Exchange Rate (Pesos/US\$):	27.0	Malangas	12.17
Income Tax Rate:	30.0%	ILB	13.39
		Total	25.56

II. Cashflows from Operations:

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	206	206	206	206	206	206	206	206	206	206	206	206
Prod. Tax @ 2%	4	4	4	4	4	4	4	4	4	4	4	4
Var. Op. Costs	92	92	92	92	92	92	92	92	92	92	92	92
Fixed G & A	61	61	61	61	61	61	61	61	61	61	61	61
Cash Op. Profit	49	49	49	49	49	49	49	49	49	49	49	49
Depreciation:												
Existing Assets	27	27	27	27	27	27	27	27	27	27		
New Assets	4	7	9	9	9	9	10	10	10	6	4	4
Total	31	34	36	36	36	36	37	37	37	33	4	4
Taxable Profit	18	15	13	13	13	13	12	12	12	16	45	45
Taxes	5	4	4	4	4	4	4	4	4	5	14	13
After-tax Profit	12	10	9	9	9	9	9	8	8	11	32	31
All-tax Cash Gen.	44	44	45	45	45	45	45	45	45	44	35	35
Capital Costs	42	28	15	3	3	3	3	3	3	3	3	3
All-tax Interest	22	18	14	9	5	3	2	1	0			
Loan Amortizations	67	73	79	85	53	17	18	20	0			
All-tax Debt Serv.	89	91	93	94	58	20	21	21	0			
Cash and Capital Costs & Debt Serv.	(88)	(75)	(63)	(52)	(18)	22	22	22	43	41	33	33
Debt Ser. Cover (x)	0.49	0.49	0.48	0.48	0.77	2.25	2.20	2.16				

Case C: No Import Protect.; No Capital Improv.; No Additional Reserves

IV. Present Values:

After-tax Cashflows from Oper.			Capital Costs		
Dis. Rate	P, MM	US\$, MM	Dis. Rate	P, MM	US\$, MM
10%	298	11.0	10%	84	3.1
15%	238	8.8	15%	76	2.8
20%	196	7.2	20%	69	2.6
25%	184	6.1			

Value of Assets

PV Cash Gen. - PV Capital Costs  
(Pesos, MM)

	Dis. Rates	Dis. Rates for Cash Gen.:			
		10%	15%	20%	25%
Dis. Rates	10%	214	154	-	-
for Cap	15%	-	162	120	-
Costs	20%	-	-	126	95

Value of Equity

(Pesos, MM)

	Hi Est.	Lo Est.
NPV Assets	158	123
Debt Value	410	410
Equity Value	(252)	(288)

Malangas Coal Corporation

Annex 5

Cashflow Projections

Page 1

Case D: Base Case plus Coal Price Increase of 2% p.a.

I Model Inputs:

Annual Prod. (tons,000):	260.0	Recov. Reser. (tons,000):	
Plant Yield:	77%	Malangas	2,190
Annual Sales (tons,000):	200.2	ILB	2,410
Sales Price/ton (US\$):	65.0	Total	4,600
Depreciable Assets (\$,MM):	10.0	Mine Life (yrs.):	
Exchange Rate (Pesos/US\$):	27.0	Malangas	8.42
Income Tax Rate:	30.0%	ILB	9.27
		Total	17.69

II Cashflows from Operations.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	351	358	366	373	380	388	396	404	412	420	428	437
Prod. Tax @ 2%	7	7	7	7	8	8	8	8	8	8	9	9
Var. Op. Costs	132	132	132	132	132	132	132	132	134	134	134	134
Fixed G & A	61	61	61	61	61	61	61	61	61	61	61	61
Cash Op. Profit	151	158	165	172	179	187	194	202	208	216	224	232
Depreciation												
Existing Assets	27	27	27	27	27	27	27	27	27	27		
New Assets	8	14	17	17	18	48	58	60	63	63	64	58
Total	35	41	44	44	45	73	85	87	90	90	64	58
Taxable Profit	115	117	121	128	135	114	110	115	119	125	180	177
Taxes	35	35	36	38	40	34	33	34	36	38	48	53
After-tax Profit	81	82	84	89	94	80	77	80	83	88	112	124
After-tax Cash Gen.	116	123	128	134	139	152	161	166	173	178	176	179
Capital Costs	84	57	30	3	3	283	117	25	25	7	3	3
After-tax Interest	22	18	14	9	5	3	2	1	0			
Loan Amortizations	67	73	79	85	53	17	18	20	0			
After-tax Debt Serv	89	91	93	94	58	20	21	21	0			
Cash after Capital Costs & Debt Serv	(57)	(25)	6	36	78	(151)	23	122	148	171	173	177
Debt Ser Cover (x)	1.30	1.35	1.39	1.41	2.38	7.80	7.85	8.08				

Case D. Base Case plus Coal Price Increase of 2% p.a.

IV Present Values

All-tax Cashflows from Oper.			Capital Costs		
Dis. Rate	P, MM	US\$,MM	Dis. Rate	P, MM	US\$,MM
10%	1,222	45.3	10%	405	15.0
15%	890	33.0	15%	328	12.1
20%	682	25.3	20%	272	10.1
25%	545	20.2			

Value of Assets

PV Cash Gen. - PV Capital Costs  
(Pesos. MM)

	Dis. Rates for Cash Gen.:				
	10%	15%	20%	25%	
Dis. Rates for Cap Costs	10%	817	485	-	-
Costs	20%	-	562	354	-
		-	-	411	273

Value of Equity

(Pesos. MM)

	Hi Est	Lo Est
NPV Assets	524	382
Debt Value	410	410
Equity Value	113	(28)

Malangas Coal Corporation

Annex 6

Cashflow Projections

Page 1

Case E: No Import Protect.; With Capital Improv.; With Additional Reserves

I. Model Inputs:

Annual Prod. (tons,000):	260.0	Recov. Reser. (tons,000):	
Plant Yield:	77%	Malangas	2,190
Annual Sales (tons,000):	200.2	ILB	2,410
Sales Price/ton (US\$):	55.0	Total	4,600
Depreciable Assets (\$MM):	10.0	Mine Life (yrs.):	
Exchange Rate (Pesos/US\$):	27.0	Malangas	6.42
Income Tax Rate:	30.0%	ILB	9.27
		Total	17.69

II. Cashflows from Operations:

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales	297	297	297	297	297	297	297	297	297	297	297	297
Prod Tax @ 2%	6	6	6	6	6	6	6	6	6	6	6	6
Var. Op Costs	132	132	132	132	132	132	132	132	134	134	134	134
Fixed G & A	61	61	61	61	61	61	61	61	61	61	61	61
Cash Op. Profit	98	98	98	98	98	98	98	98	96	96	96	96
Depreciation												
Existing Assets	27	27	27	27	27	27	27	27	27	27		
New Assets	8	14	17	17	18	46	58	60	63	63	64	56
Total	35	41	44	44	45	73	85	87	90	90	64	56
Taxable Profit	62	57	64	53	53	25	13	11	7	5	32	40
Taxes	19	17	16	16	16	7	4	3	2	2	10	12
After-tax Profit	44	40	38	37	37	17	9	7	5	4	22	28
After-tax Cash Gen.	79	81	82	82	82	90	94	95	94	94	66	84
Capital Costs	84	57	30	3	3	283	117	25	25	7	3	3
After-tax Interest	22	18	14	9	5	3	2	1	0			
Loan Amortizations	67	73	79	85	63	17	18	20	0			
After-tax Debt Serv.	89	91	93	94	58	20	21	21	0			
Cash all Capital Costs & Debt Serv	(94)	(67)	(41)	(15)	21	(213)	(44)	49	69	87	83	81
Debt Ser Cover (x)	0.88	0.89	0.86	0.87	1.40	4.50	4.57	4.56				

Case E. No Import Project.; With Capital Improv.;  
With Additional Reserves

IV. Present Values:

All-tax Cashflows from Oper.			Capital Costs		
Dis. Rate	P, MM	US\$,MM	Dis. Rate	P, MM	US\$,MM
10%	660	25.2	10%	405	15.0
15%	511	18.9	15%	328	12.1
20%	401	14.9	20%	272	10.1
25%	327	12.1			

Value of Assets

PV Cash Gen. - PV Capital Costs  
(Pesos, MM)

	Dis. Rates	Dis. Rates for Cash Gen.:			
		10%	15%	20%	25%
Dis. Rates	10%	275	105	-	-
for Cap.	15%	-	183	74	-
Costs:	20%	-	-	130	55

Value of Equity

(Pesos, MM)

	Hi Est.	Lo Est.
NPV Assets	144	102
Debt Value	410	410
Equity Value	(266)	(309)