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Price Waterhouse

ASSET PRIVATIZATION TRUST
REPUBLIC OF THE PHILIPPINES

Bagacay Mine Valuation

DRAFT FINAL REPORT

Submitted by the Price Waterhouse International Privatization Group

September 30, 1992

Office of Government Services
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Price Waterhouse

September 30, 1992

Mr. Juan W. Moran
Associate Executive Trustee
Asset Privatization Trust
10th Floor BA Lepanto Building
Paseo de Roxas
Makati, Metro Manila

Dear Mr. Moran:

We are pleased to submit to you the draft final report on the valuation of Bagacay mine, our recommendation on the apportionment of equity between APT and Philphos (should the assets and mining claims now associated with Bagacay form the basis of a new company, NEWCO, which would be offered for sale), and our recommended privatization strategy. We have incorporated the comments received from you and the management of Philippine Pyrite Corporation (PPC) on an earlier draft of the appraisal report prepared by our technical consultant, Pincock, Allen & Holt. We are also submitting to you the final report of Pincock, Allen & Holt (PAH).

This report has been prepared for the use of APT and PPC to assist them in selling their investments in Bagacay mines. Neither this report nor that of PAH should be released to any third party, including any prospective investor, without the prior written consent of Price Waterhouse's International Privatization Group. Price Waterhouse does not accept responsibility to any third party to whom this report may be shown or into whose hands it may come. It is the responsibility of any potential investor or lender to conduct their own due diligence procedures to estimate the value that it believes should be placed upon the assets or business and to access any other factors relevant to its investment decision. Even in the event that Price Waterhouse consents to a release of this report or PAH's report to a prospective investor, it remains addressed to APT.

The analysis and range of values presented in this and the PAH report rely on accounting and operational information, explanations and forecasts supplied to us and PAH by APT and PPC, including the appraisal report of Valencia Appraisal Company. We have made no attempt to independently verify the information supplied to us nor have we audited the financial statements of PPC. Consequently, we do not express an opinion on the financial information that has formed the basis for this valuation. Our conclusions depend upon the completeness and accuracy of the information supplied.

The range of values indicated in our report is not intended as a definitive valuation. They may not necessarily reflect the values attributed to Bagacay by a potential investor or third party. That value will reflect unique objectives and circumstances of individual investors. Nothing in this report is or should be relied upon as a promise or representation as to future performance or asset value. In the end, the value of Bagacay will depend on what price the Government can convince an investor to pay.

We appreciate very much your cooperation and that of Mr. Florentino Z. Vicente, President, PPC and his able staff. Price Waterhouse/International Privatization Group will be available to assist you, if appropriate and so requested, to conclude a successful sale of the Bagacay mine property and mining claims.

Sincerely yours,

Edgar C. Harrell
Director
Programs and Operations

cc: Mr. Dario Pagcaliwagan, USAID/PESO

Enclosure: a/s

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GUIDE TO ABBREVIATIONS AND MEASURES

PPC	Philippine Pyrite Corporation
PHILPHOS	Philippine Phosphate Fertilizer Corporation
NEWCO	Newly Formed Company
APT	Asset Privatization Trust
AID	U.S. Agency for International Development
COP	Committee On Privatization
BOI	Board Of Investments
PW	Price Waterhouse
IPG	International Privatization Group
PAH	Pincock, Allen, and Holt
VAC	Valencia Appraisal Company
BMMR	Base Metals Mineral Resources
ESOP	Employee Stock Ownership Plan
FOB	Freight On Board
DCF	Discounted Cash Flow
NPV	Net Present value

Exchange Rate: $1 = P25

EXECUTIVE SUMMARY

The Bagacay mining property is currently leased by the Philippine Pyrite Corporation (PPC), a wholly owned subsidiary of Philippine Phosphate Fertilizer Corporation (Philphos), from the Asset Privatization Trust (APT). APT acquired the mineral rights and the then existing surface facilities through foreclosure of the Marinduque Mining Company.

PPC invested substantial sums to rehabilitate the existing facilities which had fallen into a state of disrepair. This amount is being recovered as a credit against lease rentals and royalties owed to APT. PPC has also contributed their own assets in the form of certain equipment to the property. Mining operations are currently being conducted at the rate of about 600 tonnes per day of ore. The agreement specifies that only pyrite can be recovered. All processed pyrite ore is sold to Philphos.

This report examines the value of APT and PPC assets in the Bagacay mining property, the development costs incurred by PPC, the value of mineral rights held by APT and the relative contributions, equivalent to equity, of APT and PPC to a newly formed company, NEWCO, which would be sold to private investors. The report also examines the value of NEWCO as an on-going concern and makes recommendations on the sale of the Bagacay mining property.

APT's objective is to dispose of Bagacay mining property quickly at the highest price possible after first reaching an agreement with PPC as to PPC and APT's relative contribution to the value of the Bagacay mining property. The Committee on Privatization (COP) has already agreed to a privatization strategy of PPC and APT contributing their assets to the formation of a new company, NEWCO, which would be sold to private investors.

The analysis presented in this report suggests an adjusted book value of the Bagacay mining property assets, including improvements and pyrite and copper mining rights, of 402.7 million pesos, and the relative contributions of equity of 42% and 58% respectively for APT and PPC in NEWCO (see Table 1). This valuation and relative equity contributions assume that Philphos will concur in absorbing both its recorded and contingent liabilities on Philphos and PPC books. These amount to P33.3 million and P15.4 million respectively (see Appendix 4 and 6).

As an on-going company, the analysis suggests a value of NEWCO shares at between 171 million for pyrite mining only (base case) and 293 million pesos for pyrite and copper mining (copper case) on a pre-tax basis and 103 million pesos for pyrite and 196 million pesos for pyrite and copper on an after-tax basis. The stream of cash flows from pyrite mining was discounted at 20 percent and copper at 25 percent. One half of the severance pay obligations to all existing employees was deducted from the net present value of the cash flow to determine the value of NEWCO's shares. Again the analysis assumes that Philphos will retain all liabilities on its and PPC's books except retrenchment and retirement obligations.

The Valencia Appraisal Corporation has estimated the sound value of the Bagacay physical assets at 280 million pesos as of June 1992 and the fair market value at 182 million pesos as of August 1991. These figures do not include adjustments for development and repair costs and mining claims. Because the equipment is in such poor condition and the prospect of anyone transporting say the tram towers to another site is unlikely, we believe these figures are high except to a buyer such as Base Metals Mineral Resources Corporation which has significant copper ore reserves adjacent to the aerial tramway connecting the Bagacay mine with its port (see Appendix 7). On an asset sale basis, we believe the Valencia fair market value should be adjusted downward by at least 25% to 136 million pesos and the relative share of APT and PPC in the proceeds of an asset sale should be 28% and 72% respectively (see Table 6).

The investment risks associated with selling NEWCO as an on-going concern can be reduced and thus the value of APT and PPC's shares in NEWCO enhanced by Philphos concluding a pyrite purchase agreement with the new owners. This may not be possible under existing government procurement regulations.

The value of NEWCO would also be increased if economically minable copper deposits were to be found in the APT claim area. Geological surveys suggest they may exist, but the buyers of NEWCO would have to confirm this through exploration, which according to our technical consultant, Pincock, Allen & Holt, would cost at least 25 million pesos. APT and PPC might consider concluding an agreement with the buyers of NEWCO that the buyers pay APT and PPC a royalty of 5% on net smelter return on copper sold by NEWCO. This would generate 31.5 million pesos over 12 years in the hypothetical copper case scenario we used in our discounted cash flow projections.

The fair market value of the physical assets of the Bagacay mining property as appraised by Valencia Appraisal Company, as adjusted by PAH and PPC, is lower than the pre-tax values projected in our cash flow analysis of NEWCO as an on-going concern. Given the uncertainty about the extent of the copper reserves and the condition of the physical assets at Bagacay mine, it is likely that a prospective investor will attach little more than the fair market (liquidation) value to the existing physical assets. However, PAH believes that the mineral rights of APT are enhanced by the presence of an on-going concern and operating plant at the site at the time of sale.

We recommend that NEWCO be formed and offered for sale as an on-going concern for a price in excess of 136 million pesos, and that Philphos, as the parent of PPC, assume responsibility for all book balance sheet and contingent liabilities, estimated at 33.3 and 15.4 million pesos respectively, in exchange for an equity participation of 58% in NEWCO. Should PPC, APT, Philphos and COP concur, the next steps in the sale of the Bagacay mining property are as follows:

- Agreement with Philphos and PPC on eliminating existing and contingent liabilities from NEWCO's balance sheet in exchange for the agreement on PPC's equity in NEWCO
- Agreement with PPC and Philphos on what current assets on the balance sheet will be included in the sale of NEWCO
- Agreement on the relative shares of PPC and APT in NEWCO
- Incorporate NEWCO
- Agreement on an Employee Stock Ownership Plan (ESOP) arrangement with the employees
- Transfer APT mineral rights to NEWCO
- Reach agreement with COP on the sale price of NEWCO
- Prepare an information memorandum and bidding documents for the sale of NEWCO
- Announce the sale with advertisements and direct mailings
- Hold a pre-bidding conference
- Issue bid documents

- Facilitate due diligence review by prospective buyers
- Review bids
- Award sale

Based on experience to date, this process can probably be concluded in 90-120 days.

I. INTRODUCTION

Price Waterhouse (U.S.) has been contracted by the United States Agency for International Development (AID) to assist the Asset Privatization Trust (APT) of the Philippines in executing the privatization of the Bagacay Mine (the Mine). The Bagacay mining property is currently leased by the Philippine Pyrite Corporation (PPC).

Price Waterhouse (PW), through its International Privatization Group (IPG), has undertaken the tasks of determining the value of the APT and PPC equity in PPC, of valuing a newly formed company (NEWCO) as an on-going concern, which consists of contributed APT and PPC assets, and of advising APT and PPC on restructuring and selling NEWCO.

To provide a technical foundation for its work, PW engaged Pincock, Allen & Holt, Inc. (PAH), international mining consultants from the U.S. PAH was requested to provide a technical diagnosis of the Mine and a valuation of the equity contribution of both APT and PPC. The technical team visited the Mine and its operations in July of this year.

The conclusions and recommendations in this report are based largely on the findings of PAH which are contained in a draft report to PW dated September 4, 1992, and on information supplied by APT and PPC. Price Waterhouse/International Privatization Group has made no attempt to independently verify the information supplied by APT and PPC.

All data in this report is based on a conversion rate of P25 to $US 1.00.

IV. MINERAL POTENTIAL

Previous geological surveys reveal the existence of mineral resources of pyrite, copper, coal and precious metals in the Bagacay region. However, the economic minability of those resources, i.e., the portion of resources classified as mineral reserves, is still to be determined. Without full exploration and more detailed geologic studies, one can only speculate on the size, location, and ease of retrieval of quality, high grade ore reserves. (Low grade ore tends to be more plentiful, but also uneconomic to mine and process given current market prices and Bagacay's cost structure.) Based on information provided by PPC and on the expertise of PAH, the mining potential of the Bagacay resources is surmised below by mineral type.

<u>Pyrite</u>

The pyrite resource/reserve, including the Palosapis, Guila-Guila, and Taft deposit areas, has been estimated by PPC to consist of 7,955,000 tonnes (dry) at an average grade of 36.13 percent sulfur, as of December 31, 1991. The resource is a tabulation of all pyrite material meeting the specified cutoff grade of 20% or greater, without any regard to mining considerations.

An ultimate pit was designed and opened by PPC for extracting a pyrite ore reserve. The minable reserve in the pit was found to include 3,494,000 tonnes (dry) of massive sulfide at an average grade of 35 percent sulfur and a stripping ratio of waste to ore of .99:1, as of December 31, 1991.

It should be noted, however, that a reconciliation study was conducted by PPC around 1987, apparently because of problems with ore reserve calculations and minable projections. The findings of the reconciliation indicated that significantly less pyrite ore of acceptable grade and character to feed the mill was found, with a correspondingly significant increase in waste material. Various reasons and recommendations, such as closer drill hole spacing, were cited in the report.

Additional pyrite and copper resources occur in partially drilled areas along the massive sulfide trend to the northwest and to the southeast. Estimates by Marinduque as of December 31, 1980 indicate resources in excess of one million tonnes, mostly with low copper grades. There is a reasonably good likelihood of additional zones of massive sulfide along this trend in areas where no drilling has been conducted.

Copper

PPC tabulated an estimate of the copper resource/reserve in the Bagacay mine area using a 0.2 percent cutoff grade. The resulting resource consists of 3,268,000 tonnes (dry) at an average grade of 0.92 percent copper, as of December 31, 1991. Again, the tabulation does not take into account any mining considerations. Better grades of copper are present in the Palosapis and Guila-Guila area. A minable copper reserve has not been estimated by PPC, but a reasonable assumption is that the copper reserves represent 65% of the copper resource.

Copper grades in enriched zones typically range from 8 to 20 percent copper. Medium grade ores range from 4 to 8 percent, while low grade ores are highly pyritic and range up to 4 percent copper. Copper grades typically decrease downward in a deposit into massive pyritic ores. Therefore, a copper reserve that was once highly productive and profitable will eventually become uneconomic to operate. In the ultimate mine pit at Bagacay, for example, most of the high and medium grade ores have been removed, with the remaining mineralization ranging from 0.3 to 3.0 percent copper. A revised ultimate pit should be created that takes into consideration the economic benefit of both the pyrite and the copper.

Coal

Coal has been identified and mined on the Bagacay property. These coal beds, up to 5 meters thick, occur over much of the region and have been evaluated for energy production potential. The coals are generally low BTU and have high ash and moisture content.

Copper mineralization can also be found in coal seams. PPC estimates that there are approximately 165,000 tonnes of this material at an average 10% copper grade. However, the economic viability of this has yet to be determined. Since coal was not included in the terms of reference for this study, no analysis of coal deposits (including copper in coal deposits) was conducted by IPG and PAH.

Precious Metals

Recent outcrop samples for precious metals have indicated values from 0 to 8 grams of gold per tonne and 10 to 244 grams of silver per tonne. Historical mining records suggest the significance of the gold and silver content were relatively minor.

Further Exploration

The Bagacay massive sulfide has been mined in select locations along its trend where good copper grades were found to exist. However, many areas along the trend have only been partially drilled or not drilled at all, leaving significant gaps that warrant additional exploration. To the northwest along the trend several clusters of drill holes occur around areas where higher grade copper values were found by Marinduque, with some high grade mining of near surface material. Good exploration potential for copper, zinc, and pyrite exists in the areas in and around the Soriano Outcrop, Main Orebody, and Sodyang. To the southeast, geology and geophysics suggest that the massive sulfide may continue under the mill area and further, offering additional potential for copper, zinc, and pyrite.

Regionally, several other massive sulfide target areas were identified and partially evaluated by Marinduque. Other mining companies have made some explorations with some success as well. For example, fifteen miles to the East of Bagacay in Sulat, massive copper reserves were prospected by another Filipino firm, Base Metals Mineral Resources (BMMR), in joint venture with an Australian concern. BMMR claims that the copper in Sulat is the highest grade copper deposit known in the Philippines today. Given Sulat's proximity, there is a good probability that medium to high grade copper reserves exist in the unprospected areas of Bagacay. BMMR conducted 100 drill holes tests to confirm reserves.

The Bagacay mine and surrounding region offers good exploration potential for finding additional massive sulfide deposits and defining mineral reserves. A systematic and well planned exploration program would be required to minimize expenses and overcome potential logistical problems. According to PAH, a properly funded exploration program would require approximately P25 million over a two year period. However, exploration is a speculative and expensive undertaking, with the risks borne by the prospector. Since an exploration program would be necessary in order to maintain the long-term economic viability of the Bagacay mine, a potential investor in the mine may be deterred from bearing a lot of upfront costs (in the form of a high purchasing price), given the uncertainty of exploration endeavors.

A description of the above adjustments, additions and subtractions is provided below. For a full discussion of the determination of the equity contributions, please refer to the Pincock, Allen & Holt report dated September 4, 1992.

1. Physical Asset Value

VAC conducted two appraisals: one on a fair market (or liquidation) value basis, the other on a sound market (or replacement cost less depreciation) value basis. The results of the fair market value VAC report (dated August 1991) were APT assets of P73.5 million and PPC assets at P108.25 million. The sound market value report (dated June 1992) places a value of P121.0 million on APT assets and P158.5 million on those of PPC.

Under the assumption that NEWCO will be sold as an on-going concern, the sound value appraisal method was chosen for determining the relative equity contributions of APT and PPC. Fair market value is a preferable method for shutting down operations and liquidating assets.

2. Rehabilitation Costs

When PPC took over the mine many of the assets were in an extreme state of disrepair. Considerable sums were spent to restore them in working order. All of these have added value to APT physical assets. According to records provided by PPC, the net book value of rehabilitation costs, as of May 1992, is P25.25 million. These values should be subtracted from the APT asset value and added to PPC's value.

3. Major Repairs Over P100,000

The lease agreement between PPC and APT allows for reimbursement of major repairs over P100,000 made by PPC on APT assets. As of May 25, 1992, the total sum of repair for which PPC is entitled compensation is P16.75 million. This sum should be subtracted from APT's account and added to PPC's.

4. Development Costs

Additional value must be added to PPC's account for the development costs that they have expended on the property. These are real improvements that will add value to NEWCO; i.e., since these costs have already been incurred by PPC, they will not have to be spent by the eventual buyers of NEWCO. This should be reflect in a higher selling price. The book value, net of accumulated depreciation, according to records provided by PPC was P7.53 million in May, 1992.

5. Mineral Rights

A capitalized lease approach was chosen as most appropriate for the valuation of the mineral rights. In addition, value was added for non-producing but potentially economic copper resources by a comparable transaction method.

Based on existing pyrite reserves and a 12-year mine life, a capitalized lease value of P32.25 million was determined. This lease value includes a royalty payment per tonne of pyrite concentrate. Based on PAH's analysis and projections, the copper reserves were assigned a total value of P25.75 million. According to these figures, a total value of P57.5 million is assigned to the APT mineral rights.

6. Receivables from APT

This account is for advances made by PPC on APT's behalf, for which PPC is not expecting reimbursement. The sum of all advances totals P27.5 million and is applied to APT's account.

7. Lease Rental/Royalty Credit

According to the terms of the APT/PPC lease, PCC is allowed to deduct all repairs (over P100,000) on APT assets and other agreed advances from lease rentals and royalties. During the period of the lease, PPC has deducted an amount equal to all the lease rental and royalties; i.e., they have made no payments. As PPC is receiving credit for all the rehabilitation costs incurred through adjustments described above, APT must receive credit for the withheld payments.

The amount of withheld lease payments as of May 25, 1992 totals P33 million, and is credited to APT's account.

B. Valuation

1. Methodology

A discounted cash flow (or income) approach was used to determine the value of NEWCO as an on-going concern. This valuation method captures future potential revenue and cost streams from mining operations and adjusts them by an investor's required rate of return (the discount rate) for the perceived level of risk involved.

All future revenue and cost streams presented in this report are representative of various hypothetical scenarios, and by no means are meant to guarantee, promise, or forecast the realization of the resulting figures. The numbers simply represent what could happen if all assumed conditions were to materialize.

2. Assumptions

Two scenarios were created for the valuation of NEWCO: (1) the base case which relies solely on the production of pyrite for revenue generation, and (2) a hypothetical case where pyrite production is ceased in favor of copper production upon the success of a 2-year exploration of a quality grade copper reserve, similar to those mined previously by Marinduque.

Price Waterhouse's valuations of NEWCO under these scenarios uses the same assumptions as those used by PAH in the base financial projections. PAH's assumptions in the projections are briefly summarized below. For a full discussion, please refer to the September 4, 1992 PAH report.

a. Base Case Assumptions

Expected Mine Life

Based on an estimate of the remaining pyrite reserves in the ultimate pit, an expected mine life is assumed to be 12 years.

Annual Pyrite Production

The annual production rate has been estimated at 189,000 tonnes, based on 350 working days per year.

Pyrite Product Price

The base case product price was derived from an actual delivery contract adjusted for freight to Isabel, Leyte from Canayban, Samar. The FOB price at Canayban is P1054 per tonne.

Freight Costs

Freight costs were estimated at P150 per tonne in 1993 and P100 per tonne thereafter.

Net Revenue

Calculation of net revenue was made by adjusting gross revenue for the cost of freight to Canayban as follows:

Gross Revenue = Tonnes of concentrate * FOB Canayban price per tonne.

Net Revenue = Gross Revenue - Cost of over island freight to Canayban.

Capital Costs

In order to upgrade equipment to a standard that would allow projected production rates, it has been estimated that P100 million would be required in 1993. Of that amount, P35 million would be applied to the tramline and P65 million to the plant and mine.

An additional maintenance capital expenditure of P18.75 million would be required on an annual basis to provide for on going replacement of capital items.

Operating Costs

It has been assumed that mine operating costs would be P31.25 per tonne of material mined (ore plus waste). A stripping ratio of waste to ore of 1:1 was assumed. Should this ratio increase, total mining costs could rise significantly.

Plant operating costs were estimated at P244 per tonne of ore in 1993 and P163 per tonne of ore processed beginning in 1994.

Working Capital Requirements

Working capital was calculated on the following basis:

Working Capital = Inventory Value + Debtors (Accounts Receivables) - Creditors (Accounts Payable).

An initial investment of P25 million in working capital was assumed. The year to year increase in working capital requirements was calculated by subtracting the current year's working capital requirements from that of each previous year. Working capital was released at the end of the project adding to cash flow in 2004.

General and Administrative Costs

An estimate of P25 million per annum was used and includes an allowance for the mine site, the Makati office and all local taxes and imposts.

Excise Tax

The excise tax was calculated at 3 percent of net revenue from production.

Income tax

Corporate tax rates for mining businesses in the Philippines is 35 percent of net income. Since depreciation of plant and equipment was not calculated, net income was not able to be determined. An estimate of income tax was made by assuming that the provision for tax would be 20 percent of operating cash flow.

Mine Closure/Environmental Costs

It was assumed that the costs of mine closure in 2004 would equate to the cash inflows resulting from the sale of plant and equipment at that time. Accordingly, no mine closure related costs were included in the analysis.

b. Copper Case Assumptions

Unless otherwise stated, all assumptions listed above apply to the copper case as well.

Expected Mine Life

The copper reserve has been assigned an arbitrary mine life of 10 years (years 3-12).

Annual Production

The annual production rates for ore and waste tonnes are the same as in the base case, seeing that no new equipment is needed to switch from pyrite to copper processing. Pyrite mining is halted at the start of copper mining due to the high costs and inefficiencies associated with continual switching between copper and pyrite at the production facility.

Total daily copper concentrate yield equates to 120 tonnes for an annual yield of 46,000 tonnes, based on an average 4 percent ore grade, 70 percent recovery rate, and 17 percent concentrate grade.

The recovery rate and concentrate grade were based on historical values experienced by Marinduque in the last five years of its production.

The 4 percent copper ore grade is an average of the various grades that might be expected during the life of the mine. Copper grades show a zonation from a top enriched zone with grades averaging 8-10 percent that then drops to an intermediate zone with copper grades of 4-8 percent. Below this the copper grade gradually falls as you descend into a pyrite rich zone, where grades are typically less than 1 percent. The last years of Marinduque mining took place in zones of 2 percent, which is probably the lower limit that is economically viable.

Smelting and Refining Costs

Smelting and refining represent significant costs in the production of copper and are estimated to be P3,375 per tonne of concentrate.

Copper Product Price

The price of P9,375 per tonne for the copper concentrate was based on a long-run estimate of the price of copper at P25 per pound. Since one tonne of concentrate contains 17 percent copper, or 375 pounds of copper, the concentrate was priced at the value of its copper content.

Net Revenue

Calculation of net revenue was made by adjusting gross revenue for the cost of freight to Canayban and by the cost of smelting and refining the copper ore, as follows:

Gross Revenue = Tonnes of concentrate * Price per tonne.

Net Revenue = Gross Revenue - Cost of over island freight to Canayban - Cost of smelting and refining.

Exploration Costs

Operating costs for years 1 and 2 include additional amounts for funding a two year exploration program for copper. A reasonable cost estimate for a well planned program is between P6.25 million and P18.75 million per year. In this case, P7.5 million and P17.5 million were used in years 1 and 2 respectively.

Typically additional exploration programs are launched approximately two years before the anticipated expiration of an existing mine in order to maintain steady mining production from one reserve to another. Our hypothetical scenario ends after 12 years, however, without regard to future exploration.

Pyrite Terminal Value

Since most of the copper reserves in the pyrite ultimate pit have been exhausted, copper production will be taking place outside of this pit. Thus, the pyrite in the ultimate pit will be left intact for future excavation. Therefore, a terminal value as of the end of copper production in year 12 was assigned to take into account the remaining pyrite value. This value was based on discounted cash flows from pyrite production had the reserve been mined to exhaustion in years 13-22. Terminal value using a 20% discount rate for proven pyrite reserves is P32.7 million pre-tax and P24.5 million after-tax.

3. Projected Cash Flows

Base case cash flow calculations are presented by line item in Appendix 1A and 1B, and the copper case calculations in Appendix 2A and 2B.

In both cases, since Net Revenue from the concentrates is the only source of cash inflow, Total Cash Inflow equals Net Revenue. Total Cash Outflow comprises the sum of Capital Expenditure, Operating Costs, General and Administration, Increase in Working Capital and Excise Tax.

Total Cash Outflow was subtracted from Total Cash Inflow to determine the Pre-tax Cash Flow. The provision for tax was subtracted from the Pre-tax Cash Flow to give the Post Tax Cash Flow.

4. Discount Rates

The appropriate discount rate to use in valuing NEWCO's projected cash flows was obtained by first determining the risk-free investment rate. The risk-free rate of return is the return an investor could obtain from a low-risk guaranteed investment, such as long-term Treasury Bonds. In the Philippines, the closest determination of a risk-free return is the 364-day Treasury Bill (T-Bill) rate, which was 17.3% as of September 17, 1992. The Government is planning a three-year bond issue in November which is estimated to yield a return of 2.5 to 3.5% above the 364-day T-Bills in pesos. This premium for long-term bonds has to be added to the T-Bill rate to obtain the risk-free rate.

Once the risk-free investment rate has been determined, the next step in constructing a discount rate is to add increments for risk factors. Adjustments should be made for the following risk factors:

a. Industry Risk

The mining industry has a higher-than-average risk for investors due to the numerous uncertainties involved in the sector such as world prices and operating costs. In addition, over the past five years, the sector has considerably underperformed, especially when compared to the overall stock market. The mining sector return was 13.6% between 1987 and 1991 versus a stock market return of 36.7% over the same period.

b. Unproven Reserves

There is a substantial risk that exploration for copper will not uncover financially rewarding minable reserves. The level of uncertainty increases the perception of risk by the investor.

c. World Price Fluctuation Risk

Movement in world copper and pyrite prices can significantly undercut profits and even make a mine unprofitable to operate, thus leading to a shut-down of operations. This is a real threat, especially when considering that the price of pyrite FOB from Germany is currently lower than the cost of producing it at Bagacay.

d. Security Risk

The rebel insurgency in the Bagacay region poses a real threat to the employees and to the mine operation. Operations have already been disrupted in the past due to hostilities.

On the plus side, Philphos may agree to provide an offtake agreement for pyrite, which will reduce the risk of continuing to exploit pyrite, despite falling world pyrite prices. In addition, the new owners of NEWCO may be able to receive some tax burden reductions from the Board of Investments (BOI) in return for its expenditures in exploration or its modernization of the physical assets of NEWCO.

Given the above factors, we believe a 5-10% risk premium is appropriate. The final discount rate is obtained in the following manner:

364 day treasury bills	17.3%
Plus Premium for long term bonds	3.5
	20.8
Less Tax at 35%	7.3
	13.5
Plus Risk premium	5.0-10.0%
Discount rate	18.5-23.5%

The discount rates which prospective investors will apply to evaluate NEWCO's projected after-tax cash flows are likely to be in the 20 to 25% range, considering the sizeable investments that are required and the significant risks described above. PW/IPG uses a 20% discount rate for the base case (pyrite only/proven reserves) and 25% for the copper case (pyrite and copper/unproven reserves).

5. Discounted Cash Flow (DCF) Calculations

Net Present Value (NPV) calculations were carried out in constant 1992 pesos using discount rates of 15, 20, and 25 percent.

NPVs were calculated on both pre-tax and post-tax cash flows, by summing the discounted cash flows for years 1-12 including investments in physical assets (and exploration costs in the copper case), and subtracting out an initial investment of P25 million in working capital.

Each scenario incorporates the assumptions described above. The valuation inferred from the NPVs generated from the resulting cash flows is dependent on acceptance of these underlying assumptions and justification of the discount rate selected.

a. Base Case

Since the pyrite reserves are proven (and thus the risk element is reduced), the pre-tax cash flow generated by NEWCO in the base case should be discounted at a 20 percent discount rate. This rate results in an NPV of P178 million pre-tax and P109 million after-tax. Results of the "base case" cash flow analysis are presented in Appendix 1A and 1B, showing the calculated NPVs at various discount rates.

Note: The cash flows presented in Appendix 1A and 1B vary slightly from those reflected in the September 4, 1992 PAH report due to corrections in the calculations of excise tax and working capital.

b. Copper Case

In the copper case, the copper reserves are hypothetical and the level of risk and uncertainty is considerably larger than in the pyrite case, therefore, PW/IPG considers that a 25 percent discount rate is more appropriate. The pre-tax NPV at 25 percent for the copper case is P300 million pre-tax and P202 million after-tax. Results of the "copper case" cash flow analysis are presented in Appendix 2A and 2B, showing the calculated NPVs at various discount rates.

A summary table for both the base and copper case is provided below.

TABLE 2A
NPVS OF PRE-TAX CASH FLOWS
(P millions)

	Base Case	Copper Case
Pre-Tax NPV at 15% discount rate	241	586
Pre-Tax NPV at 20% discount rate	178	413
Pre-Tax NPV at 25% discount rate	133	300

TABLE 2B
NPVS OF AFTER-TAX CASH FLOWS
(P millions)

	Base Case	Copper Case
After-Tax NPV at 15% discount rate	156	421
After-Tax NPV at 20% discount rate	109	289
After-Tax NPV at 25% discount rate	77	202

The NPV of the copper case would change if copper royalties were added.

PW/IPG projects that an investor in NEWCO may not be willing to pay a high price upfront for the mining operation, but may agree to paying an annual royalty based on copper revenues. As such, royalty payments would be subtracted from the pre-tax NPV cash flows.

A royalty of 5 percent would be applied against total copper revenue net of smelting costs to determine the annual royalty payment. 5 percent is the generally accepted royalty rate in the industry. Based on a 25% discount rate, the copper royalty totals P31.5 million. The value of the copper royalty reflects a cost to the new owners of NEWCO but a gain to APT and PPC. It therefore would be subtracted from the NPV of NEWCO as an on-going concern.

The final total NPV for the copper case is P268.5 million on a pre-tax basis and P176.8 million on an after-tax basis.

C. Sensitivity Analysis

Sensitivity analyses were performed for both scenarios to gauge the impact that changes in key variables have on the pre-tax cash flow NPV's. For the base case, the effect of a 10 percent change in FOB selling price, capital and operating costs were evaluated. For the copper case, the effect of various copper grades, waste ratios, and a 10 percent change in copper price and smelting costs were examined. The results are shown in Tables 3 and 4 below.

TABLE 3
SENSITIVITY ANALYSIS
NPVs of AFTER-TAX CASH FLOWS, BASE CASE (P millions)

DISCOUNT RATE:	15%	20%	25%
BASE CASE	131	84	52
CAPITAL COST:			
10 percent increase	121	76	45
10 percent decrease	141	92	56
OPERATING COST:			
10 percent increase	94	54	26
10 percent decrease	168	114	77
FOB CONCENTRATE PRICE:			
10 percent increase	208	146	103
10 percent decrease	54	22	0.4

TABLE 4
SENSITIVITY ANALYSIS
NPVs of AFTER-TAX CASH FLOWS, COPPER CASE (P millions)

DISCOUNT RATE:	15%	20%	25%
ORIGINAL CASE	421	289	202
CAPITAL COST:			
10 percent increase	411	280	195
10 percent decrease	431	297	209
OPERATING COST:			
10 percent increase	384	259	177
10 percent decrease	458	319	227
PRICE OF COPPER:			
10 percent increase	543	381	274
10 percent decrease	299	196	130
COPPER GRADE:			
2 percent	38	(2)	(24)
6 percent	805	579	427
8 percent	1,188	870	653
10 percent	1,572	1,161	878
SMELTING COST:			
10 percent increase	377	256	176
10 percent decrease	465	322	228

D. Net Worth of NEWCO Shares

As of May 25, 1992 current assets of PPC were recorded at P7,572,748 and current liabilities at P7,825,882 leaving a negative book value for working capital of P253,134 (see PPC balance sheet as of May 25, 1992 in Appendix 3A).

PPC has agreed that the following Philphos liabilities recorded in Philphos books and Philphos liabilities recorded in PPC books will be retained by Philphos (see Appendix 4A-D):

Accounts Payable and Accrued Expenses	P13,041,632
Accounts Payable/Retention Fees Payable	20,223,435
	P33,265,067

Likewise, PPC has agreed that the following liabilities on PPC's books will be retained by PPC (see Appendix 4):

Accounts Payable, Accrued Expenses and other Payables	P2,939,614

NEWCO would assume the following current liabilities:

Retirement Plan	P1,929,638
13th Month Pay	638,332
Retirement Pay	72,788
	P2,640,758

The current assets that would be transferred to NEWCO would consist primarily of the inventory which was valued on PPC books at P386,211 as of May 25, 1992. A sample balance sheet for NEWCO consisting of the above current liabilities and assets is attached in the annex (Appendix 3B). The current assets in this balance sheet would not provide adequate working capital. It is estimated that a new investor would be required to make an initial investment in working capital of around P25 million. The P25 million initial working capital has been included in our cash flow projections.

For purposes of determining equity contributions to NEWCO, the labor related liabilities of P2,640,758 should be charged to PPC's account in the event of an equity sale (see Table 1). The value of the related labor liability to a new owner in NEWCO is dependent on his plans for rationalization. If no staff deductions are anticipated, the book value of P2,640,758 above would suffice. If, on the other hand, the entire current staff of 404 employees was to be laid off, a provision of P14,265,824 would be required as of September 1992 (see Appendix 5). As it is likely that some level of retrenchment will take place, the on-going value of NEWCO should be reduced. This is subject to negotiations, but for presentation purposes, P7 million has been chosen arbitrarily and is deducted from the estimated value of NEWCO as an on-going concern to arrive at the value of NEWCO's shares (see Table 5A and B).

Finally, PPC has advised us that there are contingent liabilities that do not appear on PPC books for excise taxes, value added taxes and municipal and business taxes of P15,442,748 (see Appendix 6A-C). However, these liabilities are currently being contested by PPC/Philphos. The final outcome of the dispute and thus the level of taxes to be paid, if any, is at best uncertain and cannot be determined at this point. These liabilities should therefore be retained by Philphos.

TABLE 5A
NET WORTH ON PRE-TAX BASIS
(P millions)

	Base Case	Copper Case
NPV (20%)	178	
NPV (25%)		300
Less Severance Pay	7	7
Net Worth	171	293

TABLE 5B
NET WORTH ON AFTER-TAX BASIS
(P millions)

	Base Case	Copper Case
NPV (20%)	109	
NPV (25%)		202
Less Severance Pay*	6	6
Net Worth	103	196

* Amount reflects adjustment for tax

Therefore, the estimated value of 100% of NEWCO shares is between P171 and P293 million on a pre-tax basis and between P103 and P196 million on an after-tax basis based on the analysis suggested above. (The copper case values do not reflect the 31.5 million pesos royalty payments that would have to be subtracted from the NEWCO value if it is required from the investor).

It is important to remember that ten percent of these shares will have to be offered through an ESOP to the employees if Bagacay is sold as an on-going operation.

TABLE 6
SETTLEMENT OF ACCOUNTS
(P millions)

	APT	PPC
Vac value less 25% discount	55.13	81.19
Rehab Cost Adjust	(25.25)	25.25
Repairs over P100,000	(16.75)	16.75
Lease credits	33.03	(33.03)
Receivables from APT	(27.50)	27.50
Severance/Closure costs		(14.63)
Other PPC/Philphos Liabilities*		(54.29)
Total	18.66 28%	48.74 72%

* The PPC/Philphos liabilities consist of:

1) excise, VAT and other taxes (P1.83 million)
2) contingent tax liabilities (P13.6 million)
3) Philphos/PPC outstanding liabilities (P38.85 million)

VII. PRIVATIZATION STRATEGY

A. Objectives

APT/PPC's privatization strategy should accomplish the following objectives:

- transfer 100% voting control of the Bagacay mining property to new owners, offering up to 10% of the shares to the existing employees of PPC;
- restructure the PPC balance sheet so the new owners start with no liabilities except some accrued retirement obligations to the existing PPC employees; and
- maximize the value of APT and PPC's shares in the new company to be sold.

B. Shareholding and Capital Structure and Valuation

Following extensive discussions among PPC, APT, PAH and PW/IPG, an agreement was reached on the methodology for adjusting the Valencia Appraisal Corporation August 1991 valuation of PPC assets to arrive at relative equity contributions for PPC and APT. The respective contributions are 42% APT and 58% PPC (see Table 1). This procedure valued the existing physical assets on a sound value basis and adjustments on a book value basis. The assumption was that a new company, NEWCO, would be formed and sold as a going concern, not as an asset sale.

NEWCO was valued on a discounted cash flow basis as an on-going concern using two scenarios: 1) mine and process only known pyrite reserves (base case), and 2) explore successfully new copper deposits and switch from mining pyrite to mining copper in year three of operations (copper case). The former is a business as usual scenario; the latter a hypothetical scenario should economically minable copper reserves be found for an exploration cost of up to P25 million over a two year period. In both cases the new investors would be required to making an initial capital investment in equipment of 100 million pesos and 25 million pesos in working capital. With potential liabilities of 70 million pesos, PPC's balance sheet should be restructured before sale. An agreement was reached with PPC that all Philphos liabilities on Philphos' and PPC's balance sheets would be assumed by Philphos, PPC's liabilities on PPC's books would be assumed by PPC and only the accrued retirement liability to employees would be assumed by the new owners of NEWCO (see Appendix 4). Contingent and contested liabilities of 15.4 million pesos should also be assumed by Philphos (see Appendix 6A-C). The new owners would be faced with a revised balance sheet with negative working capital (see Appendix 3B).

The pre-tax net worth of NEWCO shares following the restructuring of the balance sheet would be between 171 million and 293 million pesos, while post-tax would be between 103 million pesos and 196 million pesos (see Table 5A and 5B). Without the restructuring, the shares would be worth between 85 million pesos and 150 million pesos depending on the assumptions made. Should APT and PPC decide to sell the Bagacay mine property in an asset sale, the value of the assets would be approximately 136 million pesos. After making the adjustments for relative shares and settling all contingent liabilities, APT would receive about 19 million pesos and PPC 49 million pesos from a sale at 136 million pesos (see Table 6).

The risks to the investor would be diminished by an off take agreement between the new owners and Philphos for pyrite mined and processed by NEWCO. This possibility was not explored with either PPC or Philphos.

C. Sales Structure and Process

APT and PPC should privatize the Bagacay mining property through a sale of the shares of a newly formed company, NEWCO, with shareholder participation of 42% APT and 58% PPC. PPC would obtain a 58% share in the new company in exchange for Philphos and PPC assuming the accrued and contingent liabilities on Philphos and PPC books (except accrued retirement or retrenchment obligations to current PPC employees). 10% of the shares would be reserved for purchase by PPC employees through a payroll deduction or other appropriate scheme negotiated with the employees. The remaining 90% of the shares would be sold for cash to the highest bidder above some indicative price equivalent to a liquidation value of the assets of approximately 136 million pesos.

One company, BMMR, has expressed an interest in acquiring the Bagacay mining property as an on-going concern (see Appendix 7). Selling Bagacay mining property as an on-going concern should maximize value to APT and PPC because the work force will be in place, the equipment will be in working order and the APT mining rights will be part of the sales price. To ensure transparency, the sale of the shares should be conducted through an open bid process. APT should announce the intended sale both locally and internationally in order to improve the chance of finding a suitable buyer and obtaining the best price possible in the market.

The disadvantage of selling the Bagacay mining property as an on-going concern is that it will take time to incorporate the new company, agree on relative shares of APT and PPC, agree on what liabilities and working capital would be transferred with the sale, and work out a stock purchase program with the existing PPC employees. During this time, APT is losing money through payment of taxes and repairs on existing property over 100,000 pesos.

Since COP has already approved the formation of NEWCO and its sale to private investors as an on-going concern, and since APT and PPC are more likely to maximize their return while enhancing the possibilities of more current PPC employees continuing to work the mine with a sale of shares rather than assets, we recommend the formation of NEWCO and its sale as an on-going concern.

INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (BASE CASE)
SUMMARY OF ASSUMPTIONS AND REVENUE CALCULATIONS, 1993 TO 2004 (1992 Constant Pesos 1000000s)
APPENDIX 1A

Year #	1993 1	1994 2	1995 3	1996 4	1997 5	1998 6	1999 7	2000 8	2001 9	2002 10	2003 11	2004 12
OPERATING COSTS:												
Cost of Material Mined (P000 per Tonne)	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Mine Operating Costs (P1000000s)	13.1	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Process Operations (P000 /Tonne Ore)	0.24	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Process Operating Costs (P1000000s)	51.2	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5
TOTAL OPERATING COSTS	64.3	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
SELLING, GENERAL & ADMINISTRATIVE EXPENSES:												
Total S, G & A Costs (P1000000s)	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0

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INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (BASE CASE)
CASH FLOW SCHEDULE, 1993 TO 2004 (1992 Constant Pesos 1000000s)
APPENDIX 1B

Year #	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	1	2	3	4	5	6	7	8	9	10	11	12
CASH FLOW CALCULATED FROM LINE ITEMS												
CASH INFLOWS:												
Total Revenue	149.7	199.5	199.5	199.5	199.5	199.5	199.5	199.5	199.5	199.5	199.5	199.5
Less: Freight to FOB	21.3	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9
NET REVENUE	128.4	180.6	180.6	180.6	180.6	180.6	180.6	180.6	180.6	180.6	180.6	180.6
CASH OUTFLOWS:												
Capital Expenditure	118.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Operating Costs	64.3	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
General & Admin. Costs	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Working Capital Increase	(7.8)	13.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(30.5)
Excise Tax (3% of Net Revenue)	3.9	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
(Closure Cost – Salvage Value)												
TOTAL CASH OUTFLOW	204.1	125.4	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2	81.7
PRE TAX CASH FLOW	(75.8)	55.2	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	98.9
PRE TAX DISCOUNTED CASH FLOW:												
Cash Flow @ 15%	(65.9)	41.7	45.0	39.1	34.0	29.6	25.7	22.4	19.5	16.9	14.7	18.5
Cash Flow @ 20%	(63.1)	38.3	39.6	33.0	27.5	22.9	19.1	15.9	13.3	11.1	9.2	11.1
Cash Flow @ 25%	(60.6)	35.3	35.0	28.0	22.4	17.9	14.4	11.5	9.2	7.3	5.9	6.8
PRE TAX NET PRESENT VALUE:												
NPV @ 15%	(90.9)	(49.2)	(4.2)	35.0	69.0	98.6	124.3	146.7	166.1	183.1	197.8	216.3
NPV @ 20%	(88.1)	(49.8)	(10.2)	22.8	50.3	73.2	92.3	108.2	121.5	132.5	141.8	152.9
NPV @ 25%	(85.6)	(50.3)	(15.3)	12.8	35.2	53.1	67.5	79.0	88.2	95.5	101.4	108.2

INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (BASE CASE)
CASH FLOW SCHEDULE, 1993 TO 2004 (1992 Constant Pesos 1000000s)
APPENDIX 1B

Year #	1993 1	1994 2	1995 3	1996 4	1997 5	1998 6	1999 7	2000 8	2001 9	2002 10	2003 11	2004 12
INCOME TAX CALCULATIONS												
Pre Tax Cash Flow	(75.8)	55.2	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	98.9
Add back: Capital Expenditure	118.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Increase in Working Capital	(7.8)	13.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(30.5)
Operating Cash Flow	35.2	87.2	87.2	87.2	87.2	87.2	87.2	87.2	87.2	87.2	87.2	87.2
Income Tax (20% Operating Cash Flow)	7.0	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
AFTER TAX CASH FLOW	(82.8)	37.7	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	81.5
AFTER TAX DISCOUNTED CASH FLOW:												
Cash Flow @ 15%	(72.0)	28.5	33.5	29.2	25.4	22.1	19.2	16.7	14.5	12.6	11.0	15.2
Cash Flow @ 20%	(69.0)	26.2	29.5	24.6	20.5	17.1	14.2	11.9	9.9	8.2	6.9	9.1
Cash Flow @ 25%	(66.2)	24.1	26.1	20.9	16.7	13.4	10.7	8.6	6.8	5.5	4.4	5.6
AFTER TAX NET PRESENT VALUE:												
NPV @ 15%	(97.0)	(68.5)	(34.9)	(5.8)	19.6	41.6	60.8	77.5	92.0	104.6	115.5	130.8
NPV @ 20%	(94.0)	(67.8)	(38.3)	(13.7)	6.8	23.9	38.1	50.0	59.9	68.1	75.0	84.1
NPV @ 25%	(91.2)	(67.1)	(41.0)	(20.1)	(3.4)	10.0	20.7	29.2	36.1	41.6	45.9	51.5

INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (COPPER CASE)
SUMMARY OF ASSUMPTIONS AND REVENUE CALCULATIONS, 1993 TO 2004 (1992 Constant Pesos 000000s)
APPENDIX 2A

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Year #	1	2	3	4	5	6	7	8	9	10	11	12
PHYSICAL PARAMETERS (Tonnes are 1000s – on Dry Weight Basis):												
Tonnes of Waste	210	280	280	280	280	280	280	280	280	280	280	280
Tonnes Ore	210	280	280	280	280	280	280	280	280	280	280	280
Total Tonnes of Material Mined	420	560	560	560	560	560	560	560	560	560	560	560
PYRITE												
Ore Grade (% Sulfur)	35.0%	35.0%										
Recovery	85.0%	85.0%										
Concentrate Grade	44.0%	44.0%										
Tonnes of Concentrate Produced	142	189										
COPPER												
Ore Grade (% Copper)			4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Recovery			70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Concentrate Grade			17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Tonnes Concentrate Produced			46	46	46	46	46	46	46	46	46	46
PYRITE FREIGHT COSTS (mill to pier):												
Tonnes Transported	142	189	0	0	0	0	0	0	0	0	0	0
Cost per Tonne (P000)	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Freight Cost	21.3	18.9	0	0	0	0	0	0	0	0	0	0
COPPER FREIGHT COSTS:												
Tonnes Transported	0	0	46	46	46	46	46	46	46	46	46	46
Cost per Tonne (P000)	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Freight Cost	0	0	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
COPPER SMELTING AND REFINING:												
Tonnes Concentrate	0	0	46	46	46	46	46	46	46	46	46	46
Cost per Tonne (P000)	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38
SR Cost	0	0	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3

INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (COPPER CASE)
SUMMARY OF ASSUMPTIONS AND REVENUE CALCULATIONS, 1993 TO 2004 (1992 Constant Pesos 000000s)
APPENDIX 2A

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Year #	1993 1	1994 2	1995 3	1996 4	1997 5	1998 6	1999 7	2000 8	2001 9	2002 10	2003 11	2004 12
REVENUE CALCULATIONS:												
Pyrite												
Tonnes of Concentrate	142	189	0	0	0	0	0	0	0	0	0	0
Concentrate Price (P000 /Tonne FOB)	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Tot Pyrite Concentrate Revenue	149.7	199.5	0	0	0	0	0	0	0	0	0	0
Less: Freight Costs	21.3	18.9	0	0	0	0	0	0	0	0	0	0
Net Pyrite Revenue	128.4	180.6	0	0	0	0	0	0	0	0	0	0
Copper												
Tonnes of Concentrate	0	0	46	46	46	46	46	46	46	46	46	46
Concentrate Price (P000 /Tonne FOB)	9.37	9.37	9.37	9.37	9.37	9.37	9.37	9.37	9.37	9.37	9.37	9.37
Tot Copper Concentrate Revenue	0	0	431.2	431.2	431.2	431.2	431.2	431.2	431.2	431.2	431.2	431.2
Less: Freight Costs	0	0	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Less: SR Costs	0	0	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3
Net Copper Revenue	0	0	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3
TOTAL NET REVENUE	128.4	180.6	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3
CAPITAL COSTS (P1000000s):												
Working Capital	16.0	27.6	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	
Increase in Working Capital	(9.0)	11.6	25.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(53.2)
Capital Expenditures	118.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
OPERATING COSTS:												
Cost of Material Mined (P000 /Tonne)	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Mine Operating Costs (P1000000s)	13.1	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Process Operations (P000/Tonne Ore)	0.24	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Process Operating Costs (P1000000s)	51.2	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5	45.5
Exploration Costs	7.5	17.5										
TOTAL OPERATING COSTS	71.8	80.5	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
SELLING, GENERAL & ADMINISTRATIVE EXPENSES:												
Total S, G & A Costs (P1000000s)	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0

INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (COPPER CASE)
CASH FLOW SCHEDULE, 1993 TO 2004 (1992 Constant Pesos 1000000s)
APPENDIX 2B

Year #	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	1	2	3	4	5	6	7	8	9	10	11	12
CASH FLOW CALCULATED FROM LINE ITEMS												
CASH INFLOWS:												
Total Revenue	149.7	199.5	431.2	431.2	431.2	431.2	431.2	431.2	431.2	431.2	431.2	431.2
Less: Freight to FOB	21.3	18.9	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Less: Smelting and Refining	0.0	0.0	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3	155.3
NET REVENUE	128.4	180.6	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3	271.3
CASH OUTFLOWS:												
Capital Expenditure	118.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Operating Costs	71.8	80.5	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
General & Admin. Costs	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Working Capital Increase	(9.0)	11.6	25.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(53.2)
Excise Tax (3% of Net Revenue)	3.9	5.4	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
(Closure Cost – Salvage Value)												0.0
TOTAL CASH OUTFLOW	210.4	141.3	140.5	114.9	114.9	114.9	114.9	114.9	114.9	114.9	114.9	61.7
PRE TAX CASH FLOW	(82.0)	39.3	130.8	156.4	156.4	156.4	156.4	156.4	156.4	156.4	156.4	209.6
PRE TAX DISCOUNTED CASH FLOW:												
Cash Flow @ 15%	(71.3)	29.7	86.0	89.4	77.8	67.6	58.8	51.1	44.5	38.7	33.6	39.2
Cash Flow @ 20%	(68.3)	27.3	75.7	75.4	62.9	52.4	43.7	36.4	30.3	25.3	21.1	23.5
Cash Flow @ 25%	(65.6)	25.2	67.0	64.1	51.3	41.0	32.8	26.2	21.0	16.8	13.4	14.4
PRE TAX NET PRESENT VALUE:												
NPV @ 15%	(96.3)	(66.6)	19.4	108.9	186.7	254.3	313.1	364.2	408.7	447.4	481.0	520.2
NPV @ 20%	(93.3)	(66.0)	9.7	85.1	148.0	200.4	244.0	280.4	310.7	336.0	357.0	380.6
NPV @ 25%	(90.6)	(65.4)	1.5	65.6	116.9	157.9	190.7	216.9	237.9	254.7	268.2	282.6

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INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (COPPER CASE)
CASH FLOW SCHEDULE, 1993 TO 2004 (1992 Constant Pesos 1000000s)
APPENDIX 2B

Year #	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	1	2	3	4	5	6	7	8	9	10	11	12
INCOME TAX CALCULATIONS												
Pre Tax Cash Flow	(82.0)	39.3	130.8	156.4	156.4	156.4	156.4	156.4	156.4	156.4	156.4	209.6
Add back: Capital Expenditure	118.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
Increase in Working Capital	(9.0)	11.6	25.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(53.2)
Operating Cash Flow	27.7	69.7	175.2	175.2	175.2	175.2	175.2	175.2	175.2	175.2	175.2	175.2
Income Tax (20% Operating Cash Flow)	5.5	13.9	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
AFTER TAX CASH FLOW	(87.5)	25.4	95.8	121.4	121.4	121.4	121.4	121.4	121.4	121.4	121.4	174.6
AFTER TAX DISCOUNTED CASH FLOW:												
Cash Flow @ 15%	(76.1)	19.2	63.0	69.4	60.4	52.5	45.6	39.7	34.5	30.0	26.1	32.6
Cash Flow @ 20%	(73.0)	17.6	55.4	58.5	48.8	40.7	33.9	28.2	23.5	19.6	16.3	19.6
Cash Flow @ 25%	(70.0)	16.2	49.0	49.7	39.8	31.8	25.5	20.4	16.3	13.0	10.4	12.0
AFTER TAX NET PRESENT VALUE:												
NPV @ 15%	(101.1)	(81.9)	(18.9)	50.5	110.8	163.3	208.9	248.6	283.1	313.1	339.2	371.8
NPV @ 20%	(98.0)	(80.3)	(24.9)	33.7	82.4	123.1	157.0	185.2	208.7	228.3	244.7	264.3
NPV @ 25%	(95.0)	(78.8)	(29.7)	20.0	59.8	91.6	117.0	137.4	153.7	166.7	177.2	189.2

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PYRITE TERMINAL VALUE:

	Present Value Years 13–22	NEW TOTAL NPV
Pre Tax		
Value @15%	65.6	585.8
Value @20%	32.7	413.3
Value @25%	17.0	299.6
After Tax		
Value @15%	49.3	421.1
Value @20%	24.5	288.8
Value @25%	12.7	201.9

INTERNATIONAL PRIVATIZATION GROUP
BAGACAY MINE, SAMAR, PHILIPPINES (BASE CASE)
PYRITE TERMINAL VALUE SCHEDULE, 2005 TO 2014 (1992 Constant Pesos 1000000s)
APPENDIX 2C

	1992	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Year #	0	13	14	15	16	17	18	19	20	21	22
PRE TAX DISCOUNTED CASHFLOW:											
Cash Flow @ 15%		11.1	9.7	8.4	7.3	6.4	5.5	4.8	4.2	3.6	4.6
Cash Flow @ 20%		6.4	5.3	4.4	3.7	3.1	2.6	2.1	1.8	1.5	1.8
Cash Flow @ 25%		3.8	3.0	2.4	1.9	1.5	1.2	1.0	0.8	0.6	0.7
AFTER TAX DISCOUNTED CASHFLOW:											
Cash Flow @ 15%		8.3	7.2	6.3	5.5	4.7	4.1	3.6	3.1	2.7	3.8
Cash Flow @ 20%		4.8	4.0	3.3	2.8	2.3	1.9	1.6	1.3	1.1	1.5
Cash Flow @ 25%		2.8	2.2	1.8	1.4	1.1	0.9	0.7	0.6	0.5	0.6
PRE TAX PRESENT VALUE:											
Present Value @ 15%	65.6										
Present Value @ 20%	32.7										
Present Value @ 25%	17.0										
AFTER TAX PRESENT VALUE:											
Present Value @ 15%	49.3										
Present Value @ 20%	24.5										
Present Value @ 25%	12.7										

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APPENDIX 3A

PHILIPPINE PYRITE CORPORATION
BALANCE SHEET
AS OF 25 MAY 1992

ASSETS

CURRENT ASSETS

Cash in Bank	3,491,812.68
Advances to O & E	68,973.28
Insurance Claim Receivable	603,536.13
Employee Receivable	92,614.20
Advance – Others	126,369.19
Accounts Receivable – Philphos	(1,848,710.88)
Accounts Receivable – Others	2,308,701.61
Prepaid Expenses	216,712.68
Inventories	386,211.30
Input Tax	1,926,527.67
Advances to Contractor	200,000.00
Total Current Assets	7,572,747.86
FIXED ASSETS	
Furniture, Fixture & Equipment (Net of Depreciation)	109,721.44
TOTAL ASSETS	7,682,469.30

LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	16,696,941.63
Accrued Expenses	4,599,319.86
Witholding Tax Payable	157,905.09
SSS, Medicare, EC Payable	171,941.32
Pag – Ibig Loans Payable	1,006.58
Pag – Ibig Funds Payable	3,331.76
SSS Loan Payable	125,963.37
Unclaimed Salaries & Wages	4,157.04
Retention Fee Payable	3,780,739.31
Output Tax Payable	240,780.48
Accrued Salaries & Wages	24,721.60
Advances – Philphos	(17,980,882.57)
Total Current Liabilities	7,825,925.47
STOCKHOLDERS' EQUITY & RETAINED EARNINGS	
Capital Stocks – P 1,000 par value Authorized – 24,000 shares Issued – 6,000 shares	6,000,000.00
Deficit as of 12/31/91: (3,213,136.97) Less: Net Income (Loss) as of May 25, 1992: (2,930,319.20)	(6,143,456.17)
Total Stockholders' Equity	(143,456.17)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	7,682,469.30

NEWCO
BALANCE SHEET

ASSETS

CURRENT ASSETS

Inventories	386,211.30
Total Current Assets	386,211.30

LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Retirement Pay	1,929,638.00
13th Month Pay	638,332.00
Retrenchment Pay	72,788.00
Total Current Liabilities	2,640,758.00

APPENDIX 4A

PHILIPPINE PYRITE CORPORATION

SUBSIDIARY OF: PHILIPPINE PHOSPHATE FERTILIZER CORPORATION

FAX MESSAGE:

TO	:	BILL PINCUS FAX NO:(63-2)-8323485
FROM	:	FLORENTINO Z. VICENTE
SUBJECT	:	REPLY TO YOUR FAX DATED SEPTEMBER 15, 1992
DATE	:	SEPTEMBER 15, 1992

This is to confirm my agreement that the following liabilities pertaining to Bagacay Mines shall be retained by Philphos in their books:

A.	Philphos liabilities recorded in Philphos books consisting of Accounts Payable and Accrued Expenses	₱13,041,632
B.	Philphos liabilities recorded in PPC books consisting of Accounts Payable and Retention Fees Payable	20,223,435
	Total liabilites to be retained in Philphos books	₱33,265,067

Likewise, PPC liabilities to be retained in PPC books are as follows:

A.	Accounts Payable, Accrued Expenses and Other Payables	₱ 2,939,614

The following accrued liabilities of PPC shall be assumed by NEWCO:

A.	Retirement Plan	₱ 1,929,638
B.	13TH Month Pay	638,332
C.	Retrenchment Pay	72,788
	Total	₱ 2,640,758

BEST AVAILABLE COPY

HEAD OFFICE : 4th Floor, Low Rise Pacific Star Building
Sen. Gil J. Puyat Avenue Cor. Makati Avenue
Makati, Metro Manila, Philippines
Telephone Nos.: 817-84-31 to 34
Telefax No. : 818-84-55
Telex Nos. : 23254 PHILPHOS RCA
64473 PSPATE PN (Eastern)
45089 PHILPF PM ITT
PLANTSITE : BAGACAY MINES
Bagacay, Hinabangan, Samar
... OFFICE : TACLOBAN LIAISON OFFICE

APPENDIX 4A

PHILIPPINE PYRITE CORPORATION

SUBSIDIARY OF: PHILIPPINE PHOSPHATE FERTILIZER CORPORATION

We understand that the amount of ₱2,640,758 shall be deducted from the equity contribution of Philphos/PPC in the NEWCO.

Best regards.

Tino

FLORENTINO Z. VICENTE
President

NOTED BY:

DESIDERIO M. CASINO
Financial Consultant

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HEAD OFFICE : 4th Floor, Low Rise Pacific Star Building
Sen. Gil J. Puyat Avenue Cor. Makati Avenue
Makati, Metro Manila, Philippines

PLANTSITE : BAGACAY MINES
Bagacay, Hinabangan, Samar

Telephone Nos.: 817-84-31 to 34
Telefax No. : 818-84-56
Telex Nos. : 23264 PHILPHOS RCA
6447 PSPATE PN
40000 PHILPF PM

APPENDIX 4B

PHILIPPINE
PHOSPHATE
FERTILIZER
CORPORATION

C E R T I F I C A T I O N

THIS IS TO CERTIFY THAT THE FOLLOWING ARE THE OUTSTANDING PHILPHOS LIABILITIES RELATED TO PPC-BAGACAY MINES AS OF MAY 25, 1992:

A.) PHILPHOS LIABILITIES RECORDED IN PHILPHOS BOOKS	
1. ACCRUED EXPENSES (SCH. I)	7,990,142.[illegible]
2. ACCOUNTS PAYABLE (SCH. II)	5,151,4[illegible]
B.) PHILPHOS LIABILITIES RECORDED IN PPC BOOKS	
1. ACCOUNTS PAYABLE (SCH. III)	16,442,696.[illegible]
2. RETENTIONS PAYABLE (SCH. IV)	3,780,739.[illegible]
TOTAL LIABILITIES	₱ 33,265,067.4[illegible]
	$ 1,330,602.70 **

CERTIFIED CORRECT BY:

CARLOS P. CORPUZ
Controller

** EXCHANGE RATE: ₱25 to $1

BEST AVAILABLE COPY

PLANT SITE:
Leyte Industrial Development Estate
(LIDE) Isabel, Leyte
Telephone Nos. 5-32-99; 5-33-00

4th Floor, Low Rise Section
Pacific Star Building
Cor. Sen. Gil Puyat Ave. & Makati Ave.
Makati, Metro Manila, Philippines
Telephone No.: 817-94-31 to 42
Telex Nos.: 23254 PHILPHOS RCA
64473 PSPATE PN (EASTERN)
45690 PHILPF PM ITT
Fax No.: 818-84-55

APPENDIX 4C

PHILIPPINE PYRITE CORPORATION

SUBSIDIARY OF: PHILIPPINE PHOSPHATE FERTILIZER CORPORATION

THIS IS TO CERTIFY THAT OUTSTANDING LIABILITIES OF PHILIPPINE PYRITE CORPORATION AS OF MAY 25, 1992 ARE AS FOLLOWS:

A.	ACCOUNTS PAYABLE	(Schedule I)	₱ 254,245.46
B.	ACCRUED EXPENSES	(Schedule II)	₱4,599,319.86
C.	OTHER PAYABLES	(Schedule III)	₱ 726,807.24
			₱5,580,372.56
			$ 223,214.90 **

CERTIFIED CORRECT BY:

DEBORAH M. FERNANDEZ
Chief Accountant

** EXCHANGE RATE USED: ₱25 to $1

BEST AVAILABLE COPY

HEAD OFFICE : 4th Floor, Low Rise Pacific Star Building
Sen. Gil J. Puyat Avenue Cor. Makati Avenue
Makati, Metro Manila, Philippines

PLANTSITE : BAGACAY MINES
Bagacay, Hinabangan, Samar

LIAISON OFFICE : TACLOBAN LIAISON OFFICE
Real St., Sagkahan District, Tacloban City

Telephone Nos.: 817-94-31 to 34
Telefax No. : 818-84-55
Telex Nos. : 23254 PHILPHOS RCA
64473 PSPATE PN (Eastern)
45699 PHILPF PM ITT

APPENDIX 4D

PHILIPPINE PYRITE CORPORATION

SUBSIDIARY OF: PHILIPPINE PHOSPHATE FERTILIZER CORPORATION

TOTAL OUTSTANDING LIABILITIES (IN US$) AS OF MAY 25, 1992:

PHILPHOS FOR PPC BAGACAY	$ 1,330,602.70
PPC	223,214.90
TOTAL PHILPHOS/PPC LIABILITIES	$ 1,553,817.60

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HEAD OFFICE : 4th Floor, Low Rise Pacific Star Building
Sen. Gil J. Puyat Avenue Cor. Makati Avenue
Makati, Metro Manila, Philippines

PLANTSITE : BAGACAY MINES
Bagacay, Hinabangan, Samar

LIAISON OFFICE : TACLOBAN LIAISON OFFICE
Real St., Sagkahan District, Tacloban City

Telephone Nos.: 817-94-31 to 34
Telefax No. : 818-84-55
Telex Nos. : 23254 PHILPHOS RCA
64473 PSPATE PN (Eastern)
45699 PHILPF PM ITT

ANNEX III
PHILIPPINE PYRITE CORPORATION
COMPUTATION OF EMPLOYEE SEPARATION BENEFITS
AS OF DECEMBER 31, 1992

A.	RETRENCHMENT PAY (404 EMPLOYEES) One month for every year of service	P 11,577,561
B.	ACCRUED VACATION & SICK LEAVES	1,044,128
C.	13TH MONTH PAY	1,643,824
	GRAND TOTAL	P 14,265,513
		$ 570,620

ANNEX I
PHILIPPINE PYRITE CORPORATION
COMPUTATION OF TAX LIABILITIES
ACTUAL/ESTIMATED
JUNE TO DECEMBER 1992

A.EXCISE TAXES (3% OF ACTUAL MARKET VALUE OF ANNUAL GROSS OUTPUT)

Actual	(June-August 1992)	P 79,494
Estimated	(September-December 1992)	309,090
Subtotal		388,584

B.VALUE ADDED TAXES (10% OF GROSS SELLING PRICE OF GOODS SOLD)

Actual	(June-August 1992)	264,980
Estimated	(September-December 1992)	1,030,300
		1,295,280

C.MUNICIPAL BUSINESS TAXES, MAYORS PERMIT, ETC

Actual/Estimated	(January-December 1992)	150,000

GRAND TOTAL	P 1,833,864
	$ 73,355

APPENDIX 6B

PHILIPPINE PYRITE CORPORATION

SUBSIDIARY OF: PHILIPPINE PHOSPHATE FERTILIZER CORPORATION

11 SEPTEMBER 1992

RECEIVED BY:

PLS. PRINT NAME & SIGN

DR. EDGAR HARREL
INTERNATIONAL PRIVATIZATION GROUP
PRICEWATERHOUSE
Room 1309, The Manila Hotel
Roxas Blvd., Pasay City

Dear Dr. Harrel,

Attached for your reference are details of Philippine Pyrite Corporation's liabilities computed up to December 31, 1992. Below is a summary:

A.	PPC Tax Liabilities	
	1. Excise Taxes, Value Added Taxes. Other Business Taxes (ANNEX I)	$ 73,355
	2. Contingent Tax Liabilities (ANNEX II)	544,355
B.	Employee Separation Benefits (ANNEX III)	570,620
		$ 1,188,330

Please note that the liabilities stated above are in addition to the US$1.5M list of liabilities we submitted earlier during our September 10 meeting which covers Philphos/PPC liabilities on Bagacay Mines up to May 25, 1992. For your information, Philphos does not have any long-term liabilities pertaining to PPC Bagacay Mines.

We trust everything is in order.

Very truly yours,

DEBORAH M. FERNANDEZ
Chief Accountant

12 SEP 1992
MAIL & KEY

BEST AVAILABLE COPY

HEAD OFFICE : 4th Floor, Low Rise Pacific Star Building
Sen. Gil J. Puyat Avenue Cor. Makati Avenue
Makati, Metro Manila, Philippines

PLANTSITE : BAGACAY MINES
Bagacay, Hinabangan, Samar

LIAISON OFFICE : TACLOBAN LIAISON OFFICE
Real St., Sagkahan District, Tacloban City

Telephone Nos.: 817-94-31 to 34
Telefax No. : 818-84-55
Telex Nos. : 23254 PHILPHOS RCA
64473 PSPATE PN (Eastern)
45699 PHILPF PM ITT

ANNEX II
PHILIPPINE PYRITE CORPORATION
COMPUTATION OF CONTINGENT TAX LIABILITIES

A. VALUE ADDED TAX DEFICIENCY

Period Covered: October 1989 to December 1991	P	11,871,569

B. UNPAID MUNICIPAL/BUSINESS TAXES

Period Covered: 1985 to December 1991	P	1,737,315
GRAND TOTAL	P	13,608,884
	$	544,355

NOTE 1

In view of PPC's value added tax deficiency for the first semester of 1988 as determined by the Bureau of Internal Revenue, we have computed the amount of tax liability of PPC from 1989 to 1991 assuming an assessment is made by the BIR for these periods stated. We have recently paid our tax deficiency for 1988.

NOTE 2

A preliminary examination by the Municipality of Makati indicates unpaid municipal and business taxes from 1985 to 1991. This matter is currently being handled by our tax lawyers.

BASE METALS MINERAL RESOURCES CORP
SUITE 509, COMFOODS BLDG, CNR SEN GIL PUYAT & CHINO ROCES STS, MAKATI, METRO MANILA, PHILIPPINES. TELS 859594, 859146, 855661-9(246), FAX (632)859594

September 10, 1992

Asset Privatization Trust,
10th Floor, BA-Lepanto Building,
Paseo de Roxas,
Makati, Metro Manila.

Attention Mr Juan W. Moran,
Associate Executive Trustee

LETTER OF INTEREST : BAGACAY MINE & ASSETS

Dear Mr. Moran,

Our company, Base Metals Mineral Resources Corp, has been actively involved in the exploration for minerals throughout the Philippines for the past three years. Our priority metals are copper, manganese and nickel. The corporation is Filipino and is owned as to 40% by Australian interests having considerable mining background. We are the managers and portfolio holders in the Philippines for Auertalian mining and investment entities desireous of participating in the Philippines mining industry.

Our manganese operations have, in joint venture with Portman Ltd, a substantial listed Australian mining company, blocked out a commercial deposit of manganese ore in Cagayan and we are currently finalizing export markets for our initial production at the rate of 100,000 tonnes per annum of manganese product. The first shipment is scheduled for first quarter 1993. We are concurrently exploring a number or areas in other provinces with the objective of three operations collectively producing 300,000 tonnes per annum within the next two years. Base Metals are currently the managers.

On our nickel operations, which is joint venture with another listed Australian mining company, Interchrome N.L., we are actively negotiating markets for nickel laterites from Zambales, initially at a rate of 500,000 tonnes per annum with the objective of increasing this to more than 1,000,000 tonnes per annum.

With regard to copper, we hold significant reserves of copper-gold ore over the Sulat copper orebody, situated some nine kilometers east of the Bagacay mine and adjacent to the aerial tramway connecting the Bagacay mine with its port.

The economics of constructing a copper concentrator and associated facilities at Sulat are not overly attractive, particularly when the local insurgency problem is taken into account. Although a financially attractive high grading operation, producing direct shipping copper ore could be conducted at Sulat, this will render the remaining larger portion of the orebody uneconomic and would be wasting a potentially valuable resource.

We have studied the feasibility of processing the Sulat ore using the nearby Bagacay facilities. Although considerable rehabilitation works will be required to make the Bagacay facility fully operational for the processing of Sulat ore, the economics of doing this are reasonably attractive. As a result of these studies, we are most interested in acquiring and utilizing the Bagacay assets, under acceptable commercial terms, both for the ongoing supply of pyrite to Philphos and the production of copper-gold concentrates.

To our mind, the Bagacay facility, as a going concern, has the following advantages:-

Firstly to Base Metals:

1) capital cost outlays will be reasonable if mutually acceptable commercial arrangements can be made with APT/PPC

2) lead time for the production of copper is considerably reduced

3) exploration of the Bagacay tenements may yield additional reserves or copper ore which will extend mine life beyond that provided by the Sulat ore reserves alone.

4) the company will acquire an experienced and capable workforce and staff. We view this as a major advantage.

5) the facility will provide an improved and effective base for its ongoing exploration in Samar.

Secondly to the Government:

1) with a suitably structured arrangement, the Government will receive the full value of this asset.

2) full employment will be preserved; a major requirement for the Governments ongoing program to stabilize peace and order.

3) not only will one mine will be kept operational but a second mine will be started. The ongoing royalties and taxes accruing to the Government will be substantial, particularly when an expected mine life of more than twenty years is taken into account.

4) these future benefits will all be lost if the mine is closed and broken up. If this happens both the Government and the people of Eastern Samar will be the major losers.

5) the successful entry of Base Metals will be an ideal role model to encourage badly needed foreign investment, particularly in the mining sector which currently is in decline and is grossly under utilized.

6) closure of Bagacay will force Philphos to import expensive sulfur for their plant. An ongoing operation under the control of Base Metals will not only continue to supply the sulfur needs of Philphos from Filipino sources, it will in addition, generate foreign income from the export of copper.

APPENDIX 7

Please accept this letter as our strong expression of interest in acquiring the Bagacay facilities as an ongoing operation. We would be pleased to meet with you any time, at your convenience, to discuss this matter further.

Respectfully yours

Base Metals Mineral Resources Corp.,

Frank N. Lubbock
Chairman,

cc Mr Florentino Z. Vicente,
President & General Manager,
Philippine Pyrite Corp

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