



**CARBOCOL**



President's statement or the shareholders | 3  
Basic financial statements | 9  
Balance sheet - Assets | 10  
Balance sheet - Liabilities and shareholders' equity | 13  
Statement of changes in financial position | 14

Notes

1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES | 17
2. LIQUID INVESTMENTS | 19
3. PROVISION FOR PROTECTION OF DOUBTFUL ACCOUNTS | 21
4. COAL INVENTORIES | 21
5. PROPERTY, PLANT AND EQUIPMENT AND ACCUMULATED DEPRECIATION | 19
6. PROYECTS UNDER DEVELOPMENT, EXPLOTATION AND EXPLOITATION | 22
7. MEMORANDA ACCOUNTS | 27
8. SHORT AND LONG-TERM FINANCIAL OBLIGATIONS | 33
9. INCOME TAX | 37
10. SHARE CAPITAL | 39
11. DISTRIBUTION OF ADMINISTRATIVE COSTS | 39
12. COAL PRODUCTION COSTS | 43
13. LEGAL RESERVE | 44
14. CONTINGENCIES | 45

Dictamen of the Contrallership General of the Republic | 47

Report of independent auditors | 50

Independent auditors of the joint venture | 52



## CARBÓCOL • BOARD OF DIRECTORS

### PRINCIPALS

**Oscar Mejía Vallejo**  
*Minister of Mines and Energy*

**Andrés Restrepo Londoño**  
*President of ECOPETROL*

**Federico Clarkson Rodríguez**  
*Director of PROEXPO*

### ALTERNATES

**Andrés Restrepo Londoño**  
*President of ECOPETROL*

**Luis Alvaro Sánchez Baracaldo**  
*Director General of Public Credit*

**Luis Bernardo Florez Enciso**  
*Deputy Chief of the National Planning Department*

## REPRESENTATIVES OF THE PRESIDENT OF COLOMBIA

**Alejandro Figueroa Jaramillo**  
**Ricardo Gómez Delgado**  
**Juan Gonzalo Restrepo Londoño**  
**Ramón del Castillo Restrepo**

**Juan Felipe Gaviria Gutiérrez**  
**Luis Fernando Mejía Botero**  
**Lola de la Cruz de Pastrana**  
**Jose V. Berardinelli Solano**

## MANAGEMENT

**Sergio Sokoloff M.**  
*President*

**Roberto Iregui Piñeros**  
*Vice-president for Commercial Affairs*

**Enrique Avalos Santos**  
*Vice-president for Cerrejón operations*

**Mary Galvis de Melendro**  
*Vice-president for legal affairs*

**Jorge Escobar López**  
*Assistant to the President*

**Iván Daza Almendrales**  
*Vice-president for finance*

**Jorge Hernán Ochoa Carvajal**  
*Vice-president for technical operations*

**Antonio Salazar Morales**  
*Vice-president for Coal Mining Support*

**Christian Rodríguez Esparza**  
*Vice-president for administration*

**Bernardo Castro Durán**  
*Secretary general*



In compliance with provisions of the law and the by-laws, it is my pleasure, acting together with the Board of Directors, to present to the General Meeting of the Shareholders of Carboacol a report on the activities carried out by the company in 1988, as well as its Balance Sheet and Profit and Loss Statement and relevant annexes thereto.

To give an overall view of the year's operations and results. I have summarized the most significant aspects in the following paragraphs:

**Financial Position**

During the year long-term loans to the amount of US\$430 million and Col\$6.000 million and short-term loans to the amount of US\$50.8 million were obtained.

At the end of the year the company's subscribed and paid-up shares amounted to Col. \$69.609.626.000.

ECOPETROL's assumption of CARBOCOL's debt to the EXIMBANK of the United States (US\$502.2 million at December 31, 1988), which has been decided on by the two companies and is to be protocolized in 1989, will substantially modify the Carboacol's financial structure in the short and medium term.

**Accounting Aspects**

An increase in sales, of the order of 1.15 million metric tons, an upswing in coal prices in the international market and a decrease in production costs combined to produce a rise of 184.4% in gross earnings with respect to 1987, but such factors as financial costs, the exchange difference and depreciation on equipment not only absorbed these earnings but ultimately resulted in a loss of Col\$22,554 million for the year.

**Cerrejón North Zone**

North Zone production was adversely affected by several circumstances. Of particular importance, because of their clear impact on mining, were the heavy rains that fell in the region during the better part of the year and cut down actual production to 83.8% of the planned amount, with 8.8 million tonnes being effectively mined.

Production cost during the year amounted to US\$240.2 million and the unit cost per tonne of coal mined was US\$27.3. Gross profit per tonne of coal sold was Col\$1.881, equivalent to US\$6.44 at the average rate of exchange for 1988, but an operating loss of Col\$10.768 million was registered owing to the effect of depreciation of the mining equipment.

Production costs for 1989 should improve considerably as a result of the corrective measures that are being introduced and of the modification of the cost structure that would obtain if INCOMEX decides in favour of applying the Vallejo Plan to inputs needed to be imported by the North Zone Complex.

**Cerrejón Central Zone**

Mining was restarted in March and by December 31 111.400 tonnes of coal had been mined; this was less than the amount planned, owing partly, here again, to the heavy rains.

The coal was taken by truck to the locality of Albania and from there by the North Zone Complex train to Port Bolivar for shipping out. 63.000 tonnes were exported for a total sum of US\$2.413.000.





**El Cerrejón Central  
Zone Coal Complex:  
employment, foreign  
currency and regional  
development.**



Gross profit per tonne of coal sold was Col\$5.393, equivalent to US\$18.46, which is higher than the corresponding item for the North Zone, because of a greater return in terms of FOB prices and of lower production costs.

Discussions were continued with the El Cerrejon Community to reach a final agreement, and in this connection the possibility has been envisaged of signing a new contract or of Carbocol's buying the Community's interest in the field.

As stated in the 1987 annual report, an appeal was filed with the Council of State to set aside the award given by the arbitral tribunal set up to settle the differences that had arisen with the DOMI-PRODECO-AUXINI Consortium. The award ordered Carbocol to pay a sum of about Col\$11.300 million. No decision has been handed down as yet by the Council of State.

### **La Loma - El Boquerón Project**

One of the year's major achievements was undoubtedly completion of final arrangements for this project. After two years of negotiations with the American firm of DRUMMOND, a contract was signed on August 13, 1988.

In accordance with the policy guidelines laid down by CONPES for heavy mining, the contractual scheme of this project does not involve any participation by the Colombian state in either risks or investments.

The contract provides that up to 10 million tonnes of coal may be mined per year for 30 years, with Colombia receiving as a consideration, in 1987 dollars, 1.044 million in royalties, 1.221 million in income and remittance taxes and an additional 67 million as Participation Income if prices continue to rise. It further provides that preference shall be given to participation by domestic industrial and engineering firms and that the Project area is to receive major benefits.

### **Coal Mining Support Programmes**

Such programmes continued to be carried out and under them the construction of five Support and Salvage Stations, at Zulia, Jamundí, Amagá, Ubaté and Sogamoso, was completed.

Loans were extended to the amount of Col\$265 million, resources totalling about Col\$250 million were earmarked for community support works, eight new mining contracts were signed with small and medium-sized mining concerns, and training and technical assistance programmes were promoted.

### **Other Projects and Programmes**

Phase II of the El Descanso Project Study regarding subsoil drilling was started; Phase II of the San Luis Study was completed; surface geological exploration of the Amagá-Venecia-Bolombolo Project was started; the CARBONORTE company was strengthened by capitalization to enable it to undertake drilling programmes to identify reserves for supplying a possible extension of Termo-Tasajero; and surface geological studies were started in the areas of Páramo del Almorzadero and Albania Jesús María to identify anthracite reserves.

### **Commercial Aspects**

The rise in prices that had begun at the end of 1987 continued and amounted to 7% between 1987 and 1988. It was due to the closing of some mines in Australia and South Africa, the imposition of sanctions on the latter by some European countries, and an estimated growth of some 5 million tonnes in world demand.

A total volume of 9.429.000 metric tonnes of coal was exported from El Cerrejon Projects for an aggregate value of US\$274.822.000, with the North Zone Complex accounting for 9.366.000 tonnes for a value of US\$272.409.000.





**Puerto Bolívar:**  
premium quality coal  
stockpiled, ready for  
shipment to  
customers  
throughout the world





## Technical Aspects

In this support area, it is important to highlight the evaluations made on the basis of a study on the production of low-ash coal, carried out by Japanese firms, a feasibility study on briquette production, carried out by the Government of China, and various options for a plant for the production of coal-water mixtures.

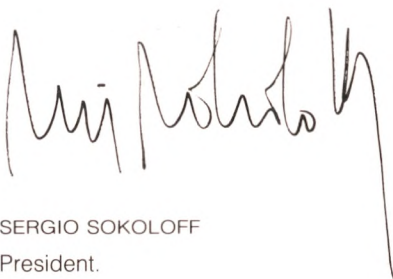
Under the agreement signed with COLCIENCIAS, work was continued on the Colombian coal development programme, regarding such aspects as washing, pneumatic transportation, coke ovens, a pyrolysis plant, gasification, sample analysis of coal from Cundinamarca and Boyacá, and evaluation of substitution projects.

## Administrative Aspects

Major action that needs to be mentioned in this area was the approval and adoption of a new organic structure, involving a reassignment of duties and responsibilities, to bring them into line with the company's present requirements, and the introduction of job performance evaluation as a basic tool for the assessment and classification of the company's personnel.

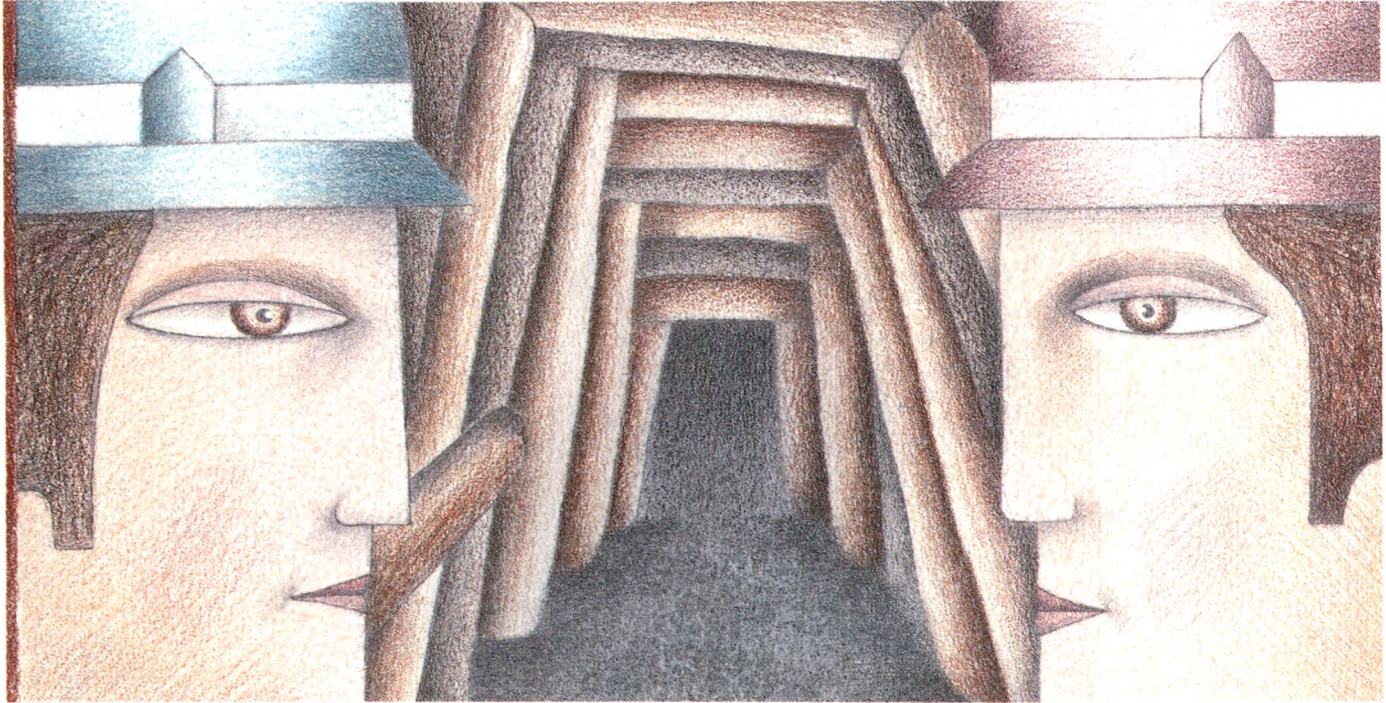
I believe I have accomplished my purpose of giving a summary of the year's activities that allows them to be seen in perspective. I have justified reasons for being optimistic about the future. This feeling is based on an objective analysis of undeniably favourable factors, notably: the behaviour of coal prices in the international market; the North Zone's forthcoming achievement of maximum production levels, with the consequent marginal advantages that will entail, such as a decrease in unit production costs; consolidation of the company, with its accumulated experience of past years and the prospect of carrying out its activities with reliance on valuable instruments such as the new Mining Code; and, lastly, implementation of a financial scheme of debt subrogation.

In conclusion, I should like to express my gratitude to the Board of Directors for their firm collaboration on every occasion it was needed, and to the shareholders for their confidence in the company's management; we shall continue to count on your guidance.

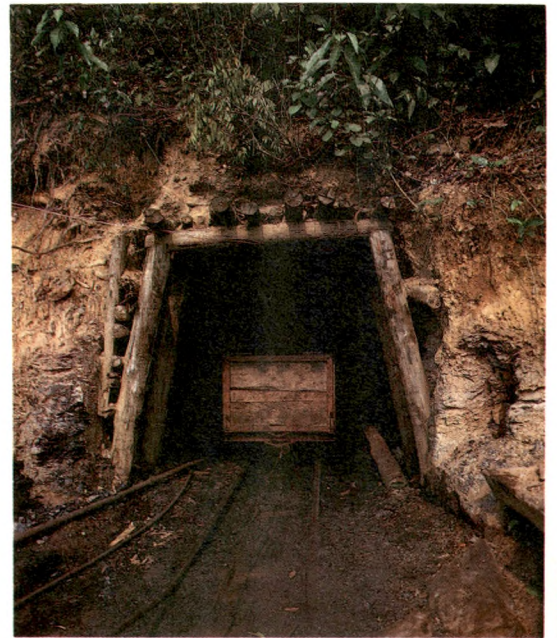


SERGIO SOKOLOFF  
President.



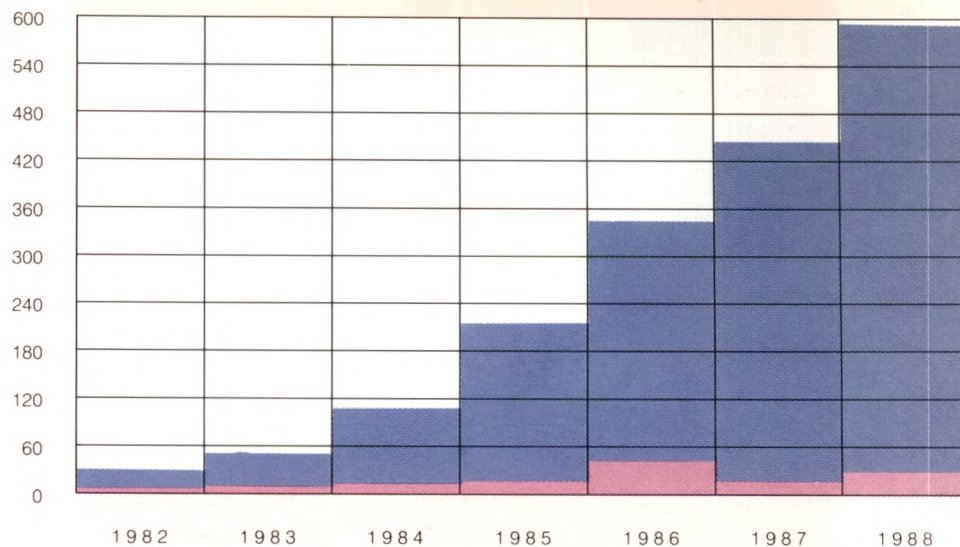
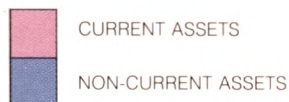


Small and medium scale mining industry support: high priority within Carbocol's objectives.

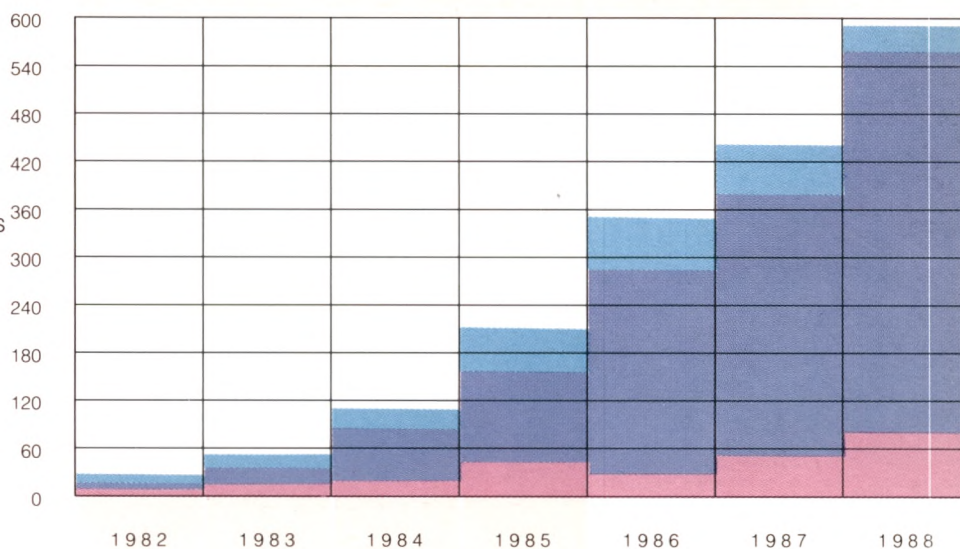
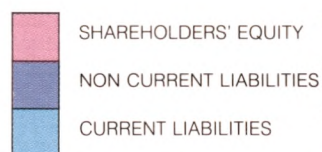




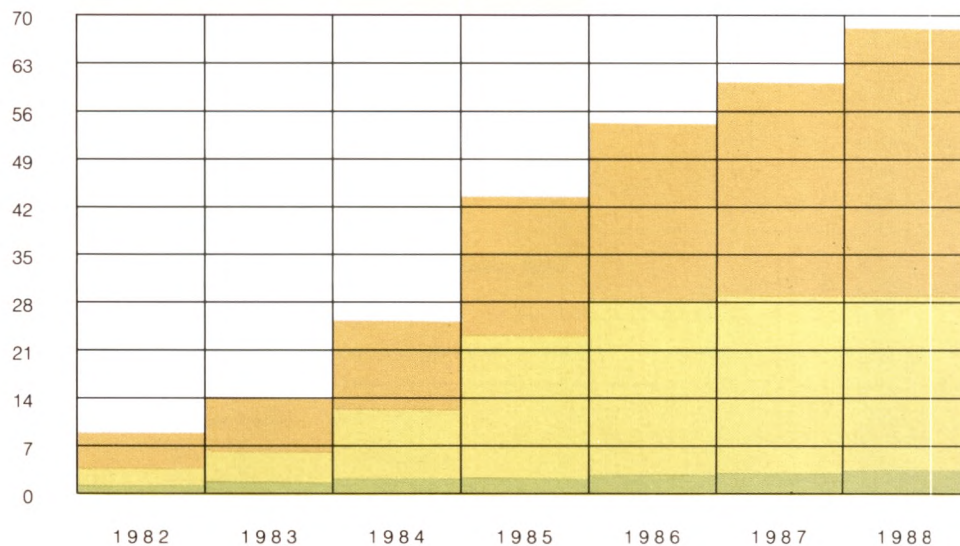
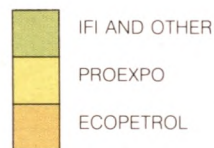
### ASSETS



### LIABILITIES AND SHAREHOLDERS' EQUITY



### CAPITAL STRUCTURE



## BALANCE SHEET - ASSETS

December 31

1988

1987

		(Col\$'000)	
<b>Current assets</b>	CASH AND BANKS	321.338	1,111.463
	LIQUID INVESTMENTS (Notes 1 and 2)	24,062.413	1,319.949
	SHORT-TERM ACCOUNTS RECEIVABLE		
	Customers (Note 1)	4,983.709	3,626.801
	Provision for bad debts (Note 3)	(294)	(1,969)
		4,983.415	3,624.832
	Advances to third parties	347.419	4.301
	Employees' medical insurance	2.391	-0-
	Employees' travel advance	6.542	7.759
	Deposits for foreign drafts	-0-	3.277
	Intercor Partner	169.786	392.732
	Other accounts receivable	1,138.640	1,151.672
	Sales tax	338.164	-0-
		2,002.942	1,559.741
	Total short-term accounts receivable	6,986.357	5,184.573
	Inventories		
	Materials and supplies	710.133	769.779
	Provision for protection	(40,378)	-0-
		669.755	769.779
	Coal (Notes 1-4)	1,667.388	2,805.953
	Provision for protection	(41,685)	(69,931)
	1,625.703	2,736.022	
Total inventories	2,295.458	3,505.801	
Prepaid expenses	97.432	98.499	
<b>Total current assets</b>	<b>33,762.998</b>	<b>11,220.285</b>	
<b>Other Assets</b>			
INVESTMENTS, AT COST	94.401	109.401	
LONG-TERM ACCOUNTS RECEIVABLE	1,042.097	624.757	
CENTRAL ZONE WORKS AND EQUIPMENT	237.312	3,962.243	
TRANSFERS TO F.N.C. (NATIONAL COAL FUND)	2,602.127	-0-	
Total other assets	3,975.937	4,696.401	
<b>Property, plant and equipment</b> (Notes 1 and 5)			
DEPRECIABLE ASSETS	4,748.837	639.594	
LESS ACCUMULATED DEPRECIATION	(439,957)	(209,015)	
NET DEPRECIABLE ASSETS	4,308.880	430.579	
GOOD IN TRANSIT	34	-0-	
Total property, plant and equipment	4,308.914	430.579	
<b>Projects under development, exploration and exploitation</b>			
CERREJON NORTH ZONE COMPLEX (Notes 1,6 and 11)	533,346.876	420,551.451	
CERREJON CENTRAL ZONE (Notes 6 and 14)	502.773	509.572	
PROJECTS UNDER DEVELOPMENT (Notes 6 and 11)	3,674.646	1,820.413	
Total projects under development and exploration	557,524.295	422,881.436	
PROPERTY APPRECIATION (Note 1)	215.526	11.557	
<b>Total assets</b>	<b>599,787.670</b>	<b>439,240.258</b>	
MEMORANDA ACCOUNTS (Notes 7 and 14)	80,113.783	30,228.621	



**BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY**

December 31

1988

1987

(Col\$'000)

<b>Current Liabilities</b>	SHORT-TERM FINANCIAL OBLIGATIONS (Note 8)	10,344.488	6,513.390
	INTEREST AND FEES ON LOANS (Note 8)	20,930.942	15,552.208
	CURRENT PORTION OF LONG-TERM OBLIGATION (Note 8)	47,911.922	26,916.524
		<u>79,187.352</u>	<u>48,982.122</u>
	ACCOUNTS PAYABLE		
	Consolidated severance pay and other social benefits - current portion	203.026	105.430
	Suppliers, contracts and services	1,184.391	1,271.639
	Sales tax	-0-	-0-
	Estimated costs payable	184.601	208.524
	Intercor Partner	529.900	298.608
	Intercor operator	6,885.241	4,417.005
	Total accounts payable	<u>8,987.159</u>	<u>6,301.206</u>
<b>Total current liabilities</b>		88,174.511	55,283.328
<b>Long-term liabilities</b>	FINANCIAL OBLIGATIONS (Note 8)	461,602.219	323,783.018
	CONSOLIDATED SEVERANCE PAY	96.664	113.553
		<u>461,698.883</u>	<u>323,896.571</u>
	OTHER LIABILITIES		
	Intercor partner	3,421.624	2,791.208
	Intercor operator	591.235	533.082
	Deferred income	4,725.648	1,486.056
	Total other liabilities	<u>8,738.507</u>	<u>4,810.346</u>
<b>Total long-term liabilities</b>		470,437.390	328,706.917
<b>Total liabilities</b>		558,611.901	383,990.245
<b>Shareholders' equity</b>	CAPITAL		
	• Authorized 84,000,000 shares of Col\$1.000 each par value (1987 - 84'000.000)		
	• Suscribed and paid 69,609,626 shares of Col\$1.000 each par value (1987 - 61,609,626 shares)	69,609.626	61,609.626
	SUSCRIBED AND PAID SHARE CAPITAL (Note 10)	<u>69,609.626</u>	<u>61,609.626</u>
	APPROPRIATED PROFIT (Note 13)		
	Legal reserve	140.993	140.993
	Reserve for Central Zone investment projects	990.883	990.883
	Total appropriated profit	<u>1,131.876</u>	<u>1,131.876</u>
	UNAPPROPRIATED PROFIT (LOSS) (Note 13)		
	Brought forward	(7,503.046)	(914.304)
	For fiscal year	(22,553.865)	(6,588.742)
	Total unappropriated profit (loss)	<u>(30,056.911)</u>	<u>(7,503.046)</u>
	PROPERTY APPRECIATION SURPLUS (Note 1)	215.525	11,557
	UNREALIZED EXCHANGE DIFFERENCE SURPLUS (Note 1)	275.653	-0-
<b>Total surplus</b>		491.178	11,557
<b>Total shareholders' equity</b>		41,175.769	55,250.013
<b>Total liabilities and shareholders' equity</b>		599,787.670	439,240.258
	MEMORANDA ACCOUNTS (Notes 7 and 14)	80,113.783	30,228.621

The notes are and integral part of the Financial Statements.

 SERGIO SOKOLOFF MORENO  
 President

 EDINSON VILORIA MARULANDA  
 Chief Government Auditor  
 assigned to Carbocol

 CARLOS SEGURA GOMEZ  
 Chief Accountant  
 Chartered Acct. 3644-T.

Faithfully taken from the books





Cactus, trupillo and  
desert: a landscape  
preserved.



**CONSOLIDATED STATEMENT OF PROFIT  
AND LOSS AND UNAPPROPRIATED PROFIT**

	December 31	1988*	1987*	Variation
		(Col\$'000)		%
<b>Gross sales</b>	COAL	41,969,116	30,319,802	38.42
	FREIGHT	3,459,173	1,577,727	119.25
	INSURANCE	17,577	15,055	16.75
	EXCHANGE DIFFERENCE (Note 1)	492,974	202,246	143.75
		45,938,840	32,114,830	43.05
	LESS RETURNS AND DISCOUNTS	-0-	-0-	-0-
<b>Net sales</b>		45,938,840	32,114,830	43.05
	LESS COST OF SALES (Notes 1 and 2)	(36,735,954)	(28,879,150)	27.21
<b>Gross profit (loss) from mining operation</b>		9,202,886	3,235,680	184.42
	OTHER OPERATING INCOME	121,362	33,589	261.31
<b>Operating expenses</b>	Sales	4,789,641	2,366,618	102.38
	Administrations (Note 11)	2,455,412	1,882,694	30.42
	Amortizations	6,799	-0-	-0-
	Mining equipment depreciation (Note 12)	14,662,759	5,837,190	151.20
		21,914,611	10,086,502	117.27
<b>Net operating profit (loss)</b>		(12,590,363)	(6,817,233)	84.68
	NON-OPERATING INCOME			
	Financial income	5,264,701	2,251,645	133.82
	Other income	4,583,454	3,398,089	34.88
		9,848,155	5,649,734	74.31
	NON-OPERATING EXPENDITURES (Note 13)			
	Financial expenses	11,752,722	3,749,875	213.42
	Exchange difference adjustments	7,633,531	1,657,721	360.48
	Other expenditures	425,404	13,647	3017.20
		19,811,657	5,421,243	265.44
<b>Profit (loss) before income tax</b>		(22,553,865)	(6,588,742)	242.31
	PROVISION FOR INCOME TAX (Note 9)	-0-	-0-	-0-
<b>Net profit (loss)</b>		(22,553,865)	(6,588,742)	242.31
<b>Profit (loss) per share</b>		(324.00)	(106.94)	202.97
<b>Unappropriated profit (loss)</b>				
<b>At the beginning of the year</b>		(7,503,046)	(914,304)	720.63
	APPROPRIATIONS (Note 13)			
	To legal reserve	-0-	-0-	-0-
	To central zone project reserve	-0-	-0-	-0-
	TOTAL APPROPRIATIONS	-0-	-0-	-0-
<b>At the end of the year</b>		(22,553,865)	(6,588,742)	242.31
<b>Total profit</b>	UNAPPROPRIATED LOSS	(30,056,911)	(7,503,046)	300.60

The notes are an integral part of the financial statements.

\* Reclassified for comparison purposes.



## STATEMENT OF CHANGES IN FINANCIAL POSITION

December 31

1988

1987

(Col\$'000)

	1988	1987
<b>Funds provided</b>		
NET PROFIT (LOSS)	(22,553,865)	(6,588,742)
Plus (minus) charges (credits) not affecting working capital:		
Extraordinary items	(364,433)	
Unrealized exchange difference	275,651	
Central Zone preoperating investment amortization	6,798	-0-
Depreciation	14,503,868	45,043
Gain from sale of property, plant & equipment	(308,250)	-0-
<b>WORKING CAPITAL PROVIDED BY FISCAL YEAR'S OPERATIONS</b>	<b>(8,440,231)</b>	<b>(6,543,699)</b>
Sale of property, plant & equipment	716,933	-0-
Retirement of assets (transfers & write-offs)	225,013	-0-
<b>LONG-TERM OBLIGATIONS</b>		
Loans obtained	167,705,255	87,733,673
Share subscription	8,000,000	6,000,000
Result of reclassification (assets to expenditures)	15,000	-0-
Sundry creditors	3,928,162	2,839,438
Capitalization of construction in progress	-0-	909,367
Recovery of Central Zone Project Investment	-0-	931,598
Decrease long-term accounts receivable	-0-	372,964
<b>Total funds provided</b>	<b>172,150,132</b>	<b>92,243,341</b>
<b>Application of funds:</b>		
Increase long-term accounts receivable	417,340	177,327
Purchase of property, plant & equipment	52,504	4,139,569
Cerrejon North Zone Complex investment increase	136,406,154	115,238,160
Investment increase other projects	1,814,691	900,300
Transfer of long-term obligations to current liabilities	43,521,086	24,320,031
Decrease in other long-term liabilities	16,890	-0-
Payment of long-term obligations	269,940	6,000,000
Investment purchases	-0-	78,401
Central Zone works and equipment purchases	-0-	3,962,242
<b>Total funds applied</b>	<b>182,498,605</b>	<b>150,676,461</b>

## STATEMENT OF CHANGES IN FINANCIAL POSITION

December 31

1988

1987

(Col\$'000)

<b>INCREASE (DECREASE) IN WORKING CAPITAL:</b>	<u>(10.348.473)</u>	<u>(58.433.120)</u>
Changes in components of working capital		
<b>INCREASE (DECREASE) IN CURRENT ASSETS:</b>		
Cash	(790.125)	954.132
Investments	22.742.463	(34.354.958)
Customers (ned)	1.358.583	2.840.445
Employees	1.174	5.025
Deposit for transfers abroad	(3.277)	-0-
Others	445.305	851.512
Inventories, materials and supplies	(100.024)	685.498
Coal inventories (net)	(1.110.320)	(2.006.042)
Prepaid expenses	(1.067)	84.830
Total	<u>22.542.712</u>	<u>(30.939.558)</u>
<b>INCREASE (DECREASE) IN CURRENT LIABILITIES:</b>		
Short-term financial obligations	9.209.833	6.513.390
Current maturities of long-term obligations	20.995.398	20.544.284
Intercor Joint Venture credit	2.699.529	874.614
Severance pay and other social benefits	97.596	10.639
Suppliers, contracts and services	(87.248)	386.742
Estimated costs payable	(23.923)	(836.099)
Total	<u>32.891.185</u>	<u>27.493.570</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<u>(10.348.473)</u>	<u>(58.433.128)</u>





El Cerrejón North Zone: aerial view of truck unloading station and silos.





**NOTE 1 Significant accounting policies and practices**

Carbocol's financial statements have been prepared in accordance with the accounting principles established in Colombia by Decree 2160 of 1986, notably the following:

**A. Translation of foreign currency balances**

Foreign currency transactions are journalized at the exchange rate prevailing on the day of the operation

All foreign currency balances are translated to Colombian pesos at the official rate of exchange in effect at year-end.

Exchange differences originating from adjustment of foreign currency liabilities are applied to the assets or cost that gave rise to such liabilities.

Exchange differences arising from accounts receivable in foreign currencies are included as operating income from sales.

Unrealized exchange gain is transferred to equity accounts.

Accordingly, net exchange differences were applied to the following items:

<i>(Col\$'000)</i>	
Cerrejón North Zone Complex	90.632.426
Upper San Jorge Project	148.574
El Descanso La Loma Project	61.213
Profit and loss (net)	3.307.863
TOTAL	
	94.150.076

**B. Foreign currency transactions**

Under legal provision in force, foreign currency transaction are subject to official control, and therefore all foreign currency acquisitions, drawdowns and bank accounts must be authorized by the Banco de la República.

At december 31, 1988 the official rate of exchange between Colombian pesos (Col\$) and US dollars(US\$) was Col\$ 335.86 to the dollar. (1987, Col\$ 263.70 to the dollar).

**C. Realizable and permanent investments**

Realizable and permanent investments are valued at cost or market value, whichever is lower.

**D. Property, plant and equipment. Depreciation**

Property, plant and equipment are valued at cost. Repair and maintenance costs are charged to the year's results as they are incurred. The cost and depreciation of assets sold or retired are eliminated from the accounts and the gain or loss is included in the results of operations.

Depreciation is calculated by the straight-line method at an annual rate of 5% for buildings and facilities, 10% for machinery and equipment, furniture and fixtures, and 20% for transport equipment.



**NOTE 1 Significant accounting policies and practices**

**E. Projects under development, exploration and exploitation**

All costs and expenses incurred in the study, exploration and assembly stages of the different projects being implemented, including exchange differences arising from adjustment of liabilities, are entered in the account of projects under development and exploration and exploitation, to be amortized against future income.

Registration of investments made and costs and expenses incurred for the Cerrejón North Zone Complex is effected on the basis of the books of the operator, who must apply the accounting procedures laid down in Annex B of the Association Agreement.

Costs and expenses incurred for the Cerrejón Central Zone are amortized on the basis of units of production (metric tons mined).

**F. Property appreciation**

On the basis of technically assessed valuations, appreciation in real estate has been recorded as Property Appreciation Surplus in the equity account.

**G. Preoperating costs and expenses**

According to Decree 2160 of 1986, Art. 53, and Regulatory Decree 353 of 1984, Arts. 7 and 11, the Cerrejón North Zone Complex is in a stage of "Testing and Start-Up"

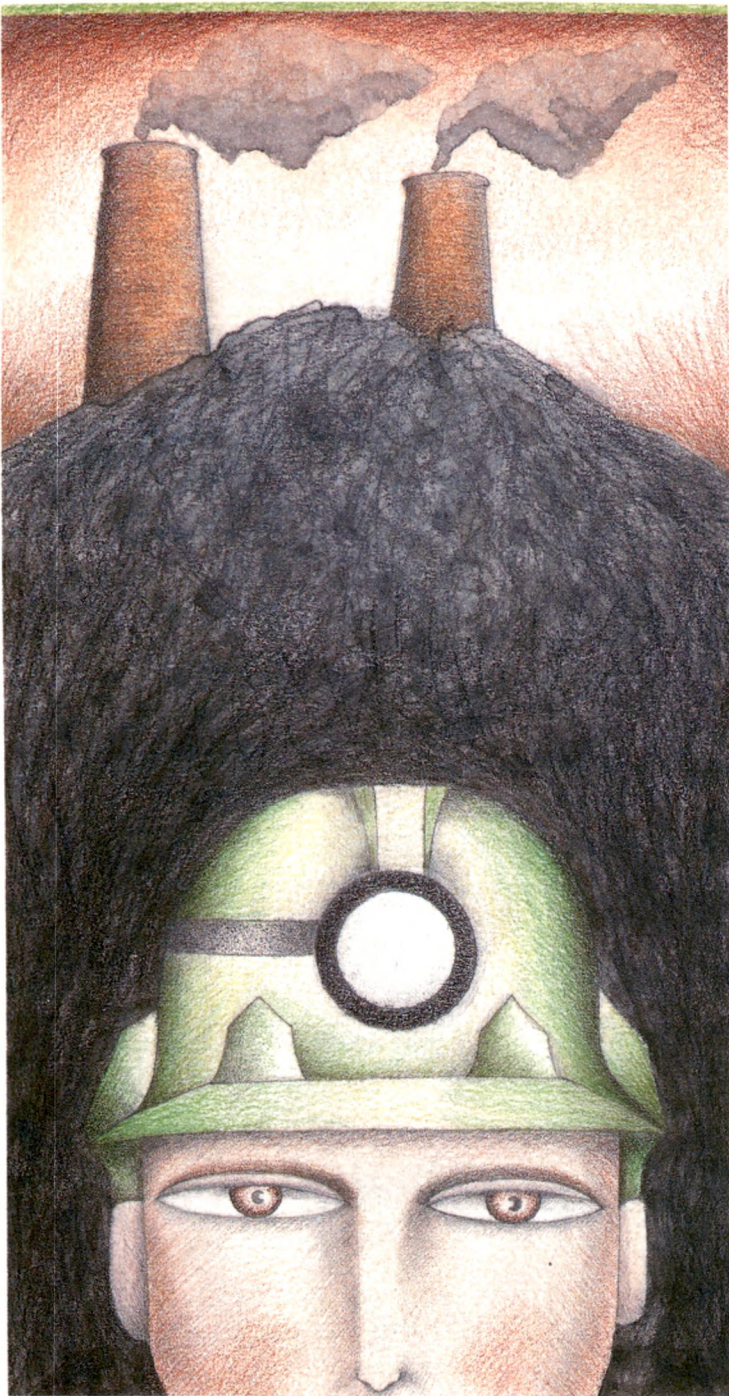
**H. The profit and loss statement**

Is presented as reclassified for the purpose of showing the impact of depreciation of the cost of the mining equipment.

**NOTE 2 Liquid investments**

<b>INVESTMENTS</b>		December 31		1988	1987
				(Col\$'000)	
<b>Investments in Colombia</b>	Exchange certificates			33.608	-0-
	Certificates in custody			3.150	12.166
	Time deposit certificates			-0-	49.697
	Upac - savings accounts			8.299	3.303
	Fiduciary funds			220.905	403.439
	TAN-gov. securities			499.999	-0-
	Bank investments (Banco del Estado)			-0-	300.000
	<b>TOTAL</b>			<b>765.961</b>	<b>768.605</b>
<b>'Repo' instruments</b>	Colpatria			400.000	-0-
	La Nacional Fiduciaria			57.700	-0-
	Banco Comercio			100.000	-0-
	Banco Colombo Americano			207.000	-0-
				<b>764.700</b>	<b>-0-</b>
	<b>TOTAL INVESTMENTS IN COLOMBIA</b>			<b>1.530.661</b>	<b>768.605</b>
<b>Investments abroad</b>	Manufacturers Hanover Trust Co.	11.100.000		3.728.046	-0-
	Chemical Bank	1.900.000		638.134	474.660
	Berliner Handel Bank-US\$	27.300.000		9.168.978	76.684
	Deutsch Südamerikanische Bank - US\$	22.300.000		7.489.678	-0-
	Bank of Tokio	2.572.000		863.778	-0-
	Deutsch Südamerikanische Bank - Y	845.740		284.050	-0-
	Deutsch Südamerikanische Bank - NLG	95.729		32.151	-0-
	Berliner Handel Bank - DM	973.000		326.936	-0-
	<b>TOTAL INVESTMENT ABROAD</b>	<b>67.086.469</b>		<b>22.531.751</b>	<b>551.344</b>
<b>Total investments</b>				<b>24.262.412</b>	<b>1.319.949</b>





**Coal from small and medium scale mines: providing energy to a growing domestic industry.**



**NOTE 3 Provision for protection of doubtful accounts**

A general provision was established for protection of accounts receivable from clients, equivalent to 5% of accounts due within 3 to 6 months, 10% of those due within 6 months to a year, and 15% of those due after one year.

**NOTE 4 Coal inventories**

Inventories are valued at cost or market price, whichever is lower.

The value of coal inventories was reduced to market value on December 31, 1988.

The cost of sales is determined according to the system of perpetual inventories by applying the moving average method.

A provision was established for protection of coal inventories on the basis of an estimated loss factor equivalent to 2.5% of the inventory.

**NOTE 5 Property, plant and equipment and accumulated depreciation**

Property, plant and equipment comprises goods in transit, depreciable assets, assets in the possession of third parties, equipment received from the Domi-Prodeco-Auxini Consortium and Central Zone facilities.

December 31	1988		1987		
		<i>(Col/\$'000)</i>			
Types of assets	%	Cost	Accumulated depreciation	Cost	Accumulated depreciation
BUILDINGS AND FACILITIES	5	920.048	81.849	211.101	57.024
MACHINERY AND EQUIPMENT	10	3.400.422*	205.688	68.388	46.366
FURNITURE AND FIXTURES	10	301.383	74.133	243.931	47.268
TRANSPORT EQUIPMENT	20	126.984	78.287	116.174	58.357
		4.748.837	439.957	639.594	209.015
GOODS IN TRANSIT		34			
		4.748.871	439.957	639.594	209.015

\* Includes goods handed over to Pinski. S.A.



**A. Cerrejón North  
Zone Complex**

At December 31, 1988 the situation of projects under development, exploration and exploitation was as follows:

According to generally accepted accounting principles and under Colombian fiscal law, the Cerrejón North Zone Complex is in a stage of development, or testing and start-up, and is therefore entitled to capitalize costs and expenses incurred by the Operator, the depreciation on assets, as well as financial and administrative costs and expenses incurred by Carbocol itself.

However, in view of the average level of productivity in 1988, equal to 58.46% of the estimated annual mining capacity the depreciation on the mining equipment and financial expenses for the year have been charged to expenditures. The difference (41.54%) is shown as capitalized in the North Zone accounts.

Capitalized investment in the Cerrejón North Zone Complex is chiefly made up of property, plant and equipment, plus amortizable costs, which include depreciation and financial expenses not charged to results accounts.

The Joint Venture has paid levies and taxes on imports. On the basis of the coal industry's exemption from taxes and levies on imported equipment, machinery, spare parts etc., as provided for by the legislation in force on this matter, claims have been made to the National Customs Administration to obtain the corresponding refund. The recorded balance at December 31, 1988 amounts to Col\$ 160.882.000.

There are labour and civil liability claims that might affect the Joint Venture.

Carbocol has recorded in memoranda accounts a sum of Col\$ 986.146.340, equal to 50% of such contingencies.

Investment in the Cerrejón North Zone Complex is detailed in the next two pages.

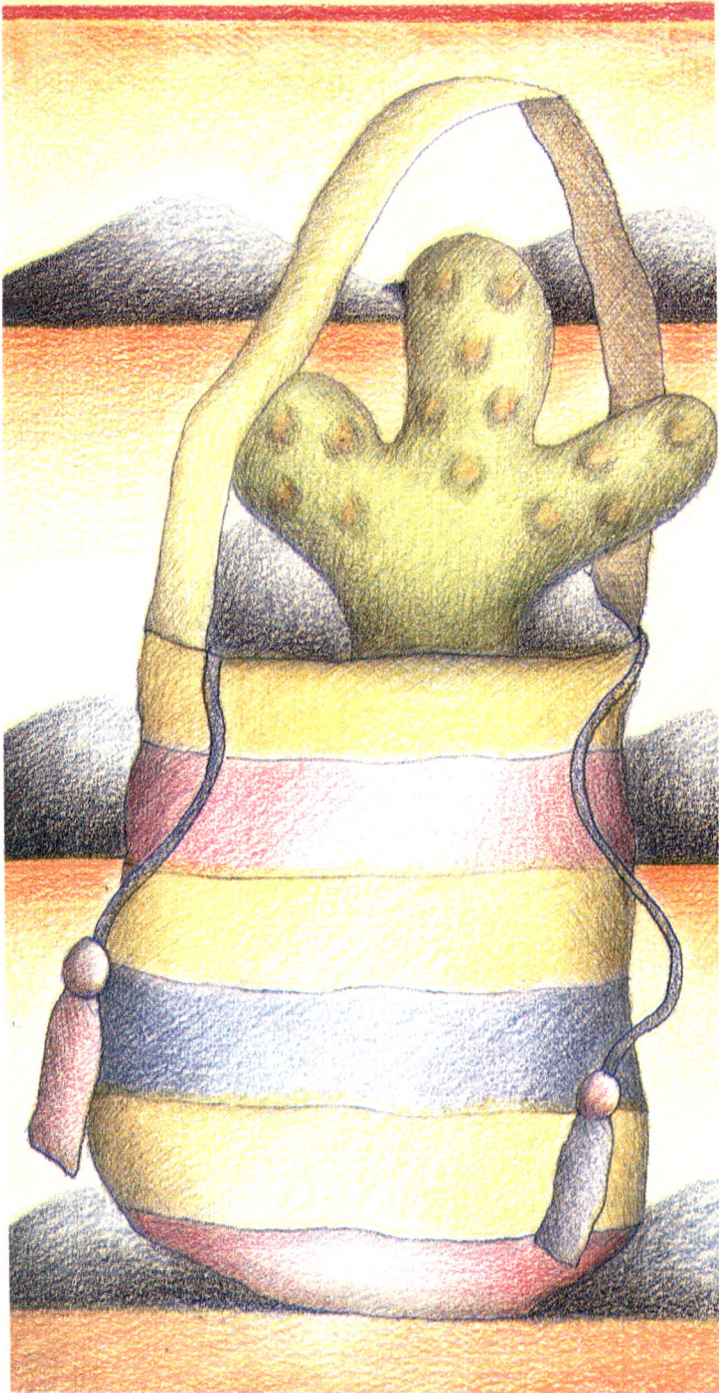
(Col\$'000)

<b>1. Property plant and equipment, materials and supplies</b>	Non depreciable fixed assets - land	190.856	198.118
	Depreciable fixed assets	113.477.833	105.170.111
	Amortizable assets *	14.572.479	14.438.675
	Capitalized financial expensed	54.189.418	54.026.846
	Capitalized exchange difference	268.737.624	184.144.134
	Less: accumulated depreciation	(70.898.576)	(28.986.721)
	Subtotal	380.269.634	328.991.163
	Construction in progress	2.569.881	4.077.157
	Inventory of materials and supplies	10.237.729	6.259.391
	Materials and supplies in transit	4.094.666	2.265.479
Subtotal	16.902.276	12.602.027	
Total	397.171.918	341.593.190	
<b>2. Amortizable costs</b>	Southern section of mine (tajo sur)	176.887	0
	Electric line financing	72.015	72.015
	Mine-port highway maintenance	320.515	320.515
	Morrison Knudsen Inc. expenses	944.932	944.932
	General construction costs	15.515.645	15.356.885
	Residential corridor	333.621	14.509
	Materials and supplies	2.343.844	2.343.844
	Dust eliminator	121.820	121.820
	Other deferred costs and expenses of operator	1.861.948	1.817.758
	Import reserves - non-reclaimable	36.644	36.644
	Other deferred costs and expenses of Carbocol	7.420.736	39.140
	Pile base	843.963	1.117.621
	Asset depreciation expenses	31.438.272	23.099.871
	Retirement of assets	748.775	664.914
	Carbocol's general administrative costs	4.156.639	3.702.273
	Coal inventory write-offs	3.291	3.291
	Operating costs - 1986 support	3.028.850	3.028.850
	Amortizable financing expenses and capitalized depreciation	90.742.688	29.400.933
	Total	160.111.085	82.085.816
<b>3. Accounts receivable and payable</b>	Advances to Operator's contractors	453.103	179.424
	Advances in respect of imports	4.462.794	5.402.020
	Services and other accounts receivable or payable	106.460	61.020
	Other non-operating costs	1.338.106	1.526.563
	Total	6.360.463	7.169.027
	Less: Production cost of Early Coal	(10.296.582)	(10.296.582)
<b>Total Nort Zone Investment</b>		553.346.876	420.551.451

**B. Cerrejón Central Zone Operation**

Exploitation of the Central Zone mine was restarted under an agreement dated February 29, 1988 between Carbocol and the firm of Pinski & Asociados S. A.





Wayúu indian  
community well-  
being: Carbocol's  
permanent objective.



December 31	1988			1987
		<i>(Col\$'000)</i>		
<b>Preoperating investment</b>	610.300			610.300
<b>Accumulated amortization</b>	107.527	502.773		100.729
				509.571

### C. Upper San Jorge Project

The Upper San Jorge Project (Department of Córdoba) is financed by the National Coal Fund using its own funds and the proceeds of a loan from the International Bank for Reconstruction and Development.

The feasibility-study stage ended in August 1987 and the accumulated costs are:

December 31			1988			1987
		<i>(Col\$'000)</i>				
<b>DIRECT CHARGES</b>						
Preliminary studies (Geominas Naci)			793.429			793.429
<b>INDIRECT CHARGES</b>						
Administrative costs			35.982			35.925
Financial expenses, interest, fees and bank charges	147.205				127.378	
Exchange difference on obligations	609.294		756.499		503.594	630.972
Distributed administrative costs			47.773			22.792
Total indirect charges			840.254			689.689
<b>TOTAL SAN JORGE PROJECT</b>			1.633.683			1.483.118

### D. San Luis Project

The San Luis Project (Department of Santander del Sur) is financed with funds given by Intercor to Carbocol pursuant to Clause 38.2 of the Association Agreement. The project studies are being carried out by the firm of Carboriente.

December 31			1988			1987
		<i>(Col\$'000)</i>				
<b>DIRECT CHARGES</b>						
Phase I surface geological exploration			411.289			230.217
<b>INDIRECT CHARGES</b>						
Administrative costs of the project			26.133			16.062
Distributed administrative costs			69.582			23.024
			95.715			39.086
<b>TOTAL SAN LUIS PROJECT</b>			507.004			269.303

Amount received from Intercor (1985 - 1988): US\$4.000.000 equivalent to Col\$864.410.000, of which Col\$ 260.317.000 remains to be applied to projects.



### E. El Descanso Project

The cost of the feasibility studies of the El Descanso Project (Departament of Cesar) is financed by the National Coal Fund using its own funds and foreign loan money from the International Bank for Reconstruction and Development.

December 31	1988	1987
	(Col\$'000)	
<b>DIRECT CHARGES</b>		
Phase I surfact geological exploration	1.202.122	-o-
<b>INDIRECT CHARGES</b>		
Administrative costs of the project	31.439	17.080
Distributed administrative costs	104.322	-o-
Financial expenses	98.987	49.814
	<u>234.748</u>	<u>66.894</u>
<b>TOTAL EL DESCANSO PROJECT</b>	<u>1.436.870</u>	<u>66.894</u>

### F. Amagá Project

This project's geological exploration studies will be financed with funds provided under the Association Agreement between Carbocol and Intercor (Clause 38.2).

December 31	1988	1987
	(Col\$'000)	
<b>INDIRECT CHARGES</b>	17.876	-o-
Administrative costs of the project	5.409	1.098
Distributed administrative costs	32.515	-o-
	<u>37.924</u>	<u>1.098</u>
<b>TOTAL AMAGA PROJECT</b>	<u>55.800</u>	<u>1.098</u>

### G. Almorzadero Project

This project's geological exploration studies are financed with funds provided under the Association Agreement between Carbocol and Intercor (Clause 38.2).

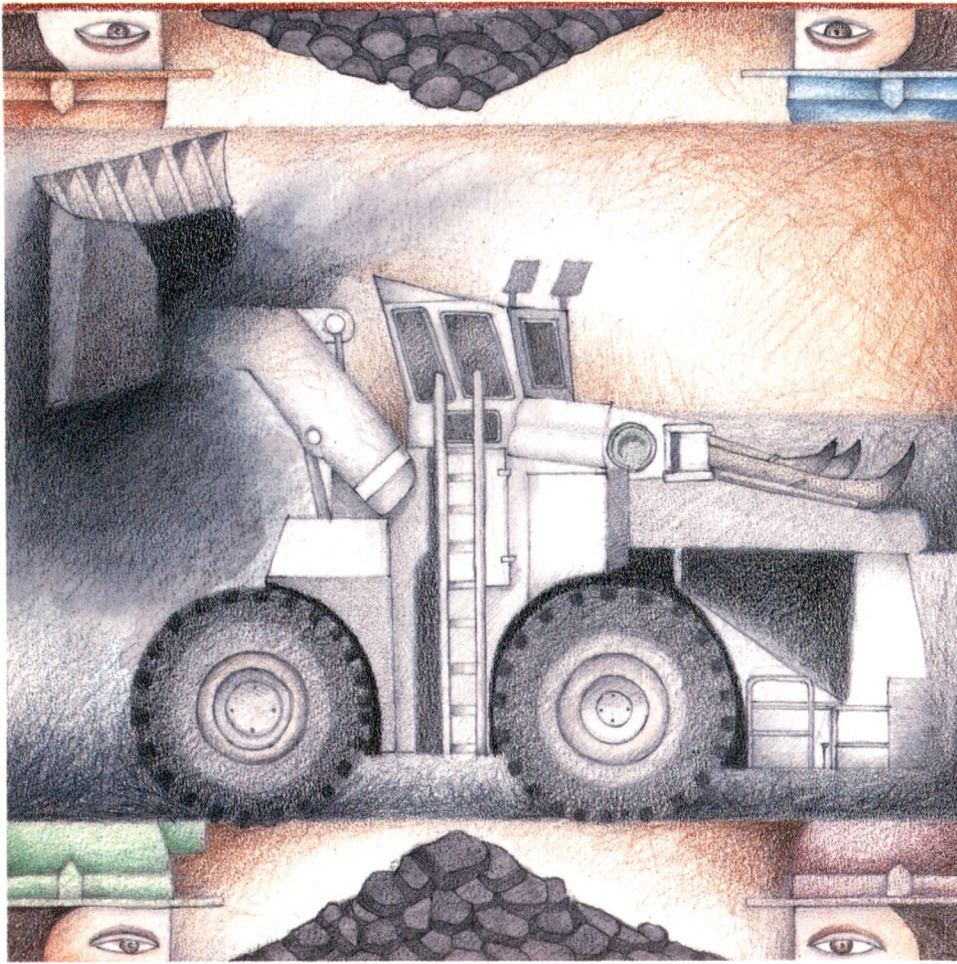
At December 31, 1988 the direct charges amounted to Col\$41.290.000.

**NOTE 7 Memoranda accounts**

At December 31, 1988 the memoranda accounts comprised the following:

December 31		1988	1987	
		(Col\$'000)		
		Amount in original currency US\$	Amount in pesos Col\$'000	
<b>Contingent Rights</b>	<b>FOREIGN CURRENCY LOANS</b>			
	Pefco-Eximbank-USA	USD 170.000.000	57.096.200	
	World Bank	USD 5.158.908	1.732.671	
	Export Development Corporation	USD 25.820.146	8.671.954	
			67.500.825	24.140.935
	<b>UNUSED LETTERS OF CREDIT</b>			
	Exports-US\$			995.537
	Cost of North Zone exploration study		1.033.956	1.033.956
	Cost of technical studies		175.565	175.565
	Customs tax claims		3.068.339	-0-
Guarantees received		806.464	349.285	
	Total contingent rights		72.585.149	26.695.278
<b>Contingent liabilities</b>	National Coal Fund		5.709.341	2.765.004
	Purchase Orders		81.994	33.479
	National Road Fund		36	36
	Guarantees Given		723.925	712.978
	Claims Against Company-North Zone		995.996	7.400
	Carbocol-Planning Dept. Agreement, Guajira			
	Revenues	8.000		
	Expenditures	(6.559)	1.441	1.441
	Carbocol-Colciencias Agreement			
	Revenues	20.815		
	Expenditures	(16.614)	4.201	1.300
	Carbocol-Ministry of Mines Agreement		4.504	4.504
	Carbocol - Social Sec. Institute - Boyaca Coal Producers' Coop. Agreement		7.196	7.201
	Total Contingent Liabilities		7.528.634	3.533.343
	TOTAL MEMORANDA ACCOUNTS		80.113.783	30.228.621





**El Cerrejón North  
Zone: Truck loading  
operation at the mine  
site.**



	Statement of income & expenditure	Balance at Dec. 31/88	Movement	Balance at Dec. 31/87	
<b>Income</b>					
Levies, interest and late payment fines	1.114.245		261.618	852.627	
North Zone production levy	1.783.669		650.058	1.133.611	
Central Zone production levy	136.316		14.317	121.999	
North Zone Intercor royalties	8.230.744		3.466.275	4.744.469	
Default interest	45.782	11.310.756	23.194	22.588	6.875.294
Yield on investments		1.336.196		429.411	906.785
Estimated North Zone Intercor royalties		334.050		85.841	248.209
Sundry revenues		23.378		23.378	-0-
<b>Total income</b>		<b>13.004.380</b>	<b>4.974.092</b>	<b>8.030.288</b>	
<b>Expenditure</b>					
Royalty payments made from levies to:					
Municipalities	2.237.646		879.590	1.358.056	
Departments	2.026.412		793.106	1.233.306	
Corporations	634.446	4.898.504	260.196	374.250	2.965.612
Royalty payments made from levies to state entities:					
Atlantic coast regional planning agency	524.146		234.964	289.182	
Ingeominas	655.179		368.695	286.484	
Ministry of Mines and energy	420.546		286.464	134.082	
Statistical agency (DANE) Revolving fund	10.000	1.609.871	10.000	-0-	709.748
Colciencias agreement		2.838		2.838	-0-
El Descanso Project		751.974		685.079	66.895
Carbocol administration		393.155		146.349	246.806
Coal mining development (costs)		1.146.387		637.636	508.751
Mining Development asset depreciation		71.223		49.085	22.138
Upper San Jorge Project		943.082		239.044	704.038
Coal sample analyses		41.977		18.495	23.482
Other expenditures		23.156		20.342	2.814
San Luis Project		15.000		-0-	15.000
Transferred to Carbocol		(2.602.128)	-0-	(2.602.128)	
<b>Total expenditure</b>		<b>7.295.039</b>	<b>2.029.755</b>	<b>5.265.284</b>	
National Coal Fund's available funds		5.709.341	2.944.337	2.765.004	



**NATIONAL COAL FUND STATEMENT OF ACCOUNT**

(Col\$'000)

	Breakdown of available funds	Balance at Dec. 31/88		Balance at Dec. 31/87	
<b>Banks and revolving funds</b>	Banco Popular - Teusaquillo	1.083		41.594	
	Banco Cafetero - Carrera 13	4.396		1.309	
	Amagá Revolving Fund	10.723		2.208	
	Jamundi Revolving Fund	237		4.174	
	Zulia Revolving Fund	280		6.407	
	Ubaté Revolving Fund	10.163		2.187	
	Sogamoso Revolving Fund	603		3.118	
	Valledupar Revolving Fund	856		-0-	
	Caja Agraria	75	28.416	-0-	60.997
<b>Short-term investments</b>	TAN - gov. securities	851.424		1.454.494	
	CONCASA UPAC savings acct.	12.423	863.847	52.492	1.506.986
<b>Financial yield receivable</b>	Financiacoop	2.676		1.550	
	TAN - gov. securities	128.066		196.908	
	Corfiboyacá	-0-		984	
	Banco Cafetero	3.578	134.320	-0-	199.442
<b>Advances to contractors and others</b>			50.271		132.148
<b>Accounts receivable</b>	Carbocol-Soc. Sec. Agreement	7.612		-0-	
	Carbocol levies, interest, and yields	-0-		8.149	
	Carbocol, Intercor royalties	438.609		492.245	
	Carbocol, production levy	171.705		306.140	
	Carbocol, bank charges	406		374	
	Carbocol, interest payments	13		13	
	Carbocol, budget contributions	16.764		4.923	
	La Previsora-indemnity	172		28.740	
	Transfers to Carbocol	2.602.128	3.237.409	-0-	840.584
<b>Inventories: Storage</b>			60.239		11.386
<b>Goods in transit</b>			61		4.042
<b>Withholding tax</b>	Exchangeable certs. (gov. sec.)	106		106	
	Participation certs. (gov. sec.)	617		617	
	TAN (gov. sec.)	4.796	5.519	4.796	5.519
<b>Discount on investment yield 1987</b>	TAN, Banco de la República	27.452		27.452	
	Investment, Banco Cafetero	23		23	
	Colciencias	36		36	
	Caja Agraria	1.295	28.806	1.295	28.806

## NATIONAL COAL FUND STATEMENT OF ACCOUNT (CONT.)

(Col\$'000)

	Breakdown of available funds	Balance at Dec. 31/88		Balance at Dec. 31/87	
<b>Investment, 1988</b>	TAN, Banco de la República	9.740		-0-	
	Caja Agraria	1.853	11.593	-0-	
<b>Estimated Intercor royalties receivable</b>			334.051		248.209
<b>Mining development constructions in progress</b>			40.000		143.073
<b>Mining development fixed assets</b>	Machinery and equipment	133.985		119.827	
	Furniture and fixtures	144.446		115.329	
	Land transport equipment	57.814		57.814	
	Buildings and facilities	485.917		-0-	
		822.162		292.970	
	Accumulated depreciation on fixed assets	(71.222)	750.940	(22.138)	270.832
<b>Long-term investments</b>	Caja de Crédito Agrario	241.839		215.871	
	Procarbón de Occidente Shares	63.593		63.593	
	Corfiboyacá - mining development facility contribution	127.162		50.000	
	Financiacoop - mining development facility contribution	184.232		80.000	
	Carbonorte	29.399		29.399	
	National Guarantee Fund	40.006		-0-	438.863
	Banco Cafetero	259.885	946.116	-0-	438.863
	Subtotal available funds		6.491.588		3.890.887
<b>Suppliers</b>			8.462		2.160
	Withholding tax payable		5.155		795
<b>Accounts payable</b>	Dept. of Cesar road infrastructure	40.000		-0-	
	Carbocol	306.518		402.689	
	Geominas	53.858		100.175	
	Ministry of Mines	-0-		29.045	
	Atlantic Coast Regional Planning Agency	41.070		76.601	
	Ingeominas	-0-		37.311	
	Universidad Pedagógica	6.755		-0-	
	Municipalities, Departments and Corporations	286.980		-0-	
	Other accounts payable	22.359	757.540	402.224	1.048.045
<b>Sundry creditors</b>			11.090		74.883
<b>Total accounts payable</b>			782.247		1.125.883
<b>Total net available funds</b>			5.709.341		2.765.004





**Small and medium scale mining industry: rudimentary coal transport.**

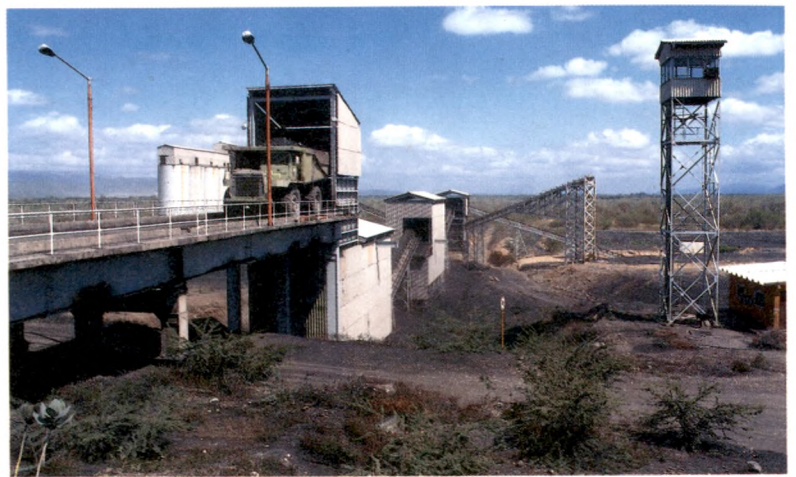
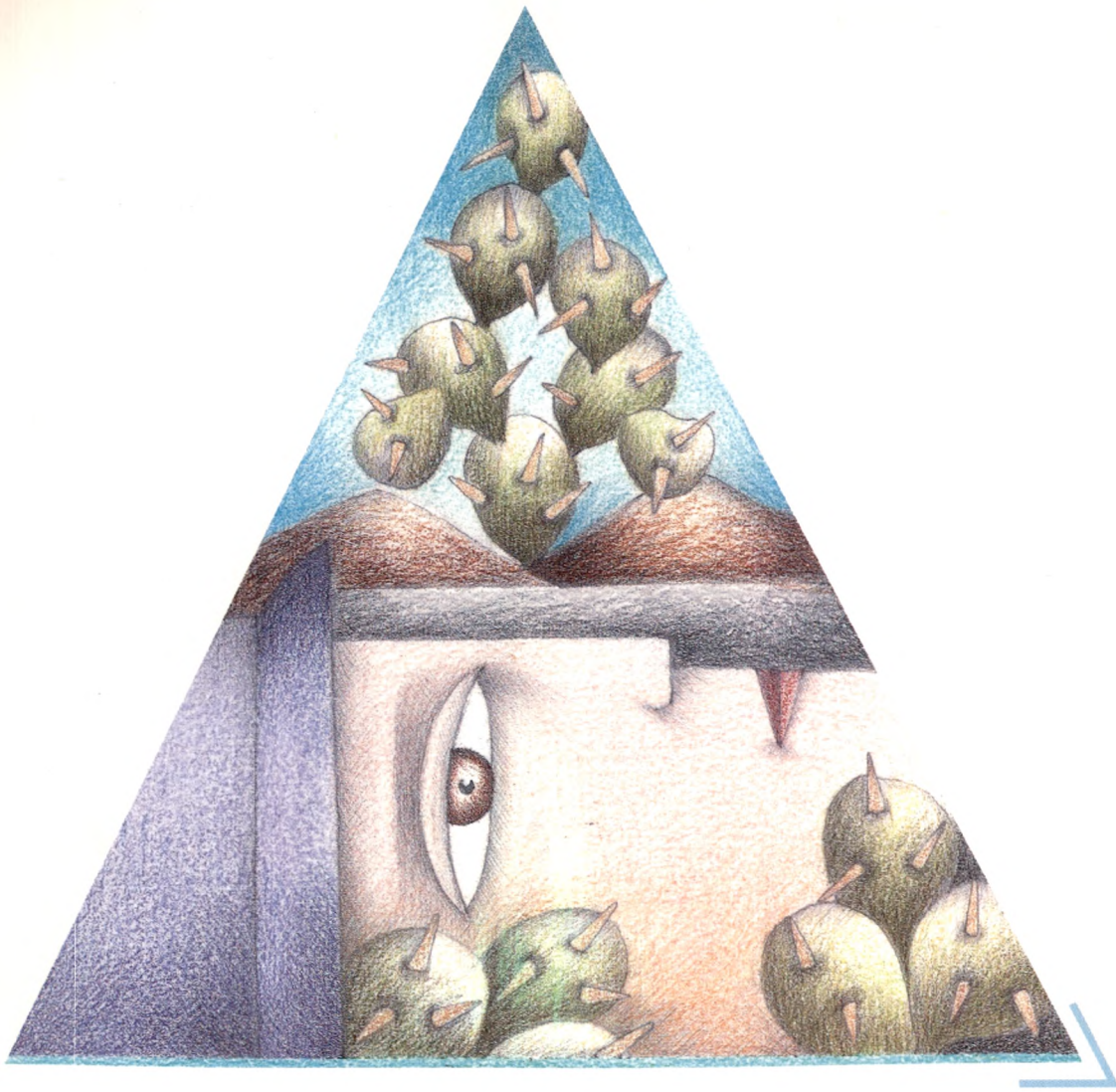




**NOTE 8 Short and Long-term financial obligations  
(principal - interest and fees)**

<b>PRINCIPAL - SHORT TERM</b>	December 31	1988	1987
Lender	Total amount US\$	Outstanding Balance Col\$'000	
Banco Indosuez, Panama	1.400.000	-0-	-0-
Banco Indosuez, Panama	3.000.000	-0-	791.100
Banco Indosuez, Panama	2.600.000	-0-	685.620
Banco Indosuez, Panama	3.000.000	-0-	791.100
Banco Indosuez, Panama	2.000.000	-0-	-0-
Banco Europeo para América Latina	2.500.000	-0-	-0-
Banco Europeo para América Latina	2.500.000	-0-	659.250
Banco Europeo para América Latina	2.000.000	-0-	-0-
Banco Europeo para América Latina	2.000.000	-0-	-0-
Banco Cafetero-Miami	1.500.000	-0-	-0-
Deutsch Südamerikanische Bank	2.500.000	-0-	-0-
Deutsch Südamerikanische Bank	2.500.000	-0-	659.250
Banco de Bogotá - Panama	4.000.000	-0-	817.470
Credit Lyonnais	5.000.000	-0-	1.318.500
Banco Cafetero - Miami	1.500.000	-0-	-0-
Banco Europeo para America Latina	10.000.000	-0-	791.100
Berliner Handels Und Frankfurter Bank - New York	25.000.000	-0-	-0-
Ibero America Bank	5.800.000	1.947.988	-0-
Credit Lyonnais	5.000.000	1.679.300	-0-
Banco de Bilbao	10.000.000	3.358.600	-0-
Berliner Handels Und Frankfurter Bank - New York	5.000.000	1.679.300	-0-
Deutsch Südamerikanische Bank	5.000.000	1.679.300	-0-
<b>Total</b>		<b>10.344.488</b>	<b>6.513.390</b>





El Cerrejón Central  
Zone: truck unloading  
station at the coal  
crushing plant.

**NOTE 8 Short and Long-term financial obligations  
(principal - interest and fees)**

(Col\$'000)

Interest	Lender or loan facility	Original currency	Amount original currency	Exchange rate	Outstanding balance	
					Dec. 31/88	Dec. 31/87
Local currency	Ecopetrol	Col. pesos			-o-	244,146
	Proexpo	Col. pesos			311,567	-o-
	Total local currency interest:					311,567
Foreign currency	Kreditanstalt für Wiederaufbau	Deutsche mark	129,033.43	0.56588	24,524	139,058
	Algemene Bank Nederland	Neth. guilders	634,169.98	0.50087	106,681	105,629
	Chemical Bank - New York	US dollars	1,663,580.27	335.86000	558,730	499,565
	Loan to the Nation	US dollars	676,775.05	335.86000	227,302	304,723
	US Eximbank	US dollars	27,887,671.24	335.86000	9,366,353	7,400,381
	Pefco USA	US dollars	883,463.59	335.86000	296,720	763,956
	Eximbank-Japan	Japanese yen	283,496,673.73	0.00807	768,387	702,153
	Export Credit Guarantee Department	US dollars	449,521.42	335.86000	150,976	136,776
	Berliner Handels und Frankfurter Bank	Deutsche mark	732,854.53	0.56588	139,284	147,393
	World Bank	US dollars	96,375.45	335.86000	32,369	33,883
	Export Development Corporation	US dollars	8,035,755.29	335.86000	2,698,889	2,177,320
	Banco Europeo para América Latina	US dollars	0.00	335.86000	-o-	3,371
	Banco Indosuez	US dollars	0.00	335.86000	-o-	68,119
	Südamerikanische Bank	US dollars	16,614.58	335.86000	5,580	25,489
	Banco de Bogotá - Panama	US dollars	0.00	335.86000	-o-	22,072
	Jumbo - Integrated Loan	US dollars	8,069,131.98	335.86000	2,710,099	1,950,415
	Jumbo - Integrated Loan	Japanese yen	194,477,433.95	0.00807	527,110	415,402
	Jumbo - Integrated Loan	Candn. dollars	28,268.15	0.83960	7,971	5,042
	Jumbo - Integrated Loan	Deutsche mark	411,656.52	0.56588	78,238	66,452
	Jumbo - Integrated Loan	Swiss francs	234,033.98	0.67090	52,735	49,693
	Jumbo - Integrated Loan	Neth. guilders	427,142.69	0.50087	71,855	59,778
	Jumbo - Integrated Loan	Belgian francs	2,089,617.98	0.02699	18,942	15,715
	Jumbo - Integrated Loan	Pounds sterling	13,416.39	1.81151	8,163	6,413
	Jumbo - Integrated Loan	E.C.U.	425,981.20	1.16039	166,017	151,223
	Concorde - Integrated Loan	US dollars	5,789,395.29	335.86000	1,944,426	-o-
	Concorde - Integrated Loan	Belgian francs	37,454.27	0.02699	340	-o-
	Concorde - Integrated Loan	Neth. guilders	262,278.10	0.50087	44,121	-o-
	Concorde - Integrated Loan	Deutsche mark	302,542.66	0.56588	57,500	-o-
	Concorde - Integrated Loan	French francs	1,296,775.74	0.16565	72,146	-o-
	Concorde - Integrated Loan	Swiss francs	19,200.94	0.67090	4,327	-o-
	Concorde - Integrated Loan	Pounds sterling	290,529.89	1.81151	176,762	-o-
	Concorde - Integrated Loan	Japanese yen	40,071,952.91	0.00807	108,611	-o-
	Concorde - Integrated Loan	Candn. dollars	367,797.36	0.83960	103,714	-o-
Credit Lyonnais - Panama	US dollars	34,791.67	335.86000	11,685	6,684	
Berliner Handels und Frankfurter Bank	US dollars	17,708.33	335.86000	5,948	-o-	
Banco de Bilbao	US dollars	55,416.67	335.86000	18,612	-o-	
Ibero America Bank	US dollars	41,788.19	335.86000	14,035	-o-	
Total foreign currency interest					20,579,151	15,256,705
<b>Total Interest</b>					20,890,718	15,500,851



**NOTE 8 Short and Long-term financial obligations  
(principal - interest and fees)**

(Col\$'000)

Fees	Lender or loan facility	Original currency	Amount original currency	Exchange rate	Outstanding balance	
					Dec. 31/88	Dec. 31/87
Foreign currency	Pefco - U.S.A.	US\$	27,945.21	335.86000	9.386	231
	Export Credit Guarantee Department	US\$	14,403.73	335.86000	4.838	4,412
	World Bank	US\$	18,071.46	335.86000	6.069	5,716
	Export Development Corporation	US\$	15,043.32	335.86000	5.052	7,088
	Kreditanstalt Fur Wiederaufbau	US\$	-0-	-0-	-0-	199
	US. Eximbank	US\$	44,300.73	335.86000	14.879	33,711
Total fees					40,224	51,357
<b>Total Interest and fees</b>					20,930,942	15,552,208

**PRINCIPAL - CURRENT PORTION AND LONG-TERM PORTION**

December 31

1988

(Col\$'000)

Lender or loan facility	Facility currency	Total amount in fac. cur.	Undrawn balance	total	Current portion	Long-term portion
Proexpo	Col pesos	6,000,000,000		6,000,000	-0-	6,000,000
Chemical Bank New York	US dollars	50,000,000		13,061,222	3,731,778	9,329,444
Crédito La Nación	US dollars	70,000,000			6,717,200	-0-
Export Import Bank U.S.A.	US dollars	487,500,000		162,678,799	7,231,806	155,445,993
Private Export Funding Corporation - Pefco	US dollars	65,000,000		4,930,139	2,982,451	1,947,688
Export Import Bank of Japan	Yen	34,500,000,000		22,477,348	3,458,122	19,019,226
Export Credit Guarantee Department - Lloyds Bank	US dollars	100,000,000		4,706,772	724,119	3,982,653
Berliner Handels und Frankfurter Bank-Alemania	Deutsche mark	13,464,000		1,119,501	319,857	799,644
Berliner Handels und Frankfurter-Bank Alemania	Deutsche mark	22,355,000		2,618,267	523,653	2,094,614
Banco Internacional de Reconstrucción y Fomento-BIRF	US dollars	9,500,000	5,158,908	1,479,719	299,134	1,180,585
Export Development Corporation-E.D.C.	US dollars	160,000,000		50,155,093	3,582,507	46,572,587
Algemene Bank Nederland Holanda	Netherlands guilders	30,490,000		3,977,613	512,909	3,464,704
Integrated loan	US dollars	268,270,242		88,299,216	11,713,159	76,586,057
Chemical Bank as Agent						
Jumbo 1/	Yen	10,305,129,053		27,372,303	3,631,020	23,741,283
1/	Canadian dollars	776,463		214,574	28,464	186,110
1/	Deutsche mark	19,381,554		3,609,918	478,867	3,131,051
1/	Swiss francs	11,895,298		2,626,742	348,445	2,278,297
1/	Netherlands guilders	18,743,449		3,090,003	409,898	2,680,105
1/	Belgian francs	68,321,308		606,937	80,512	526,425
1/	Pounds sterling	368,064		219,457	29,112	190,345
1/	ECU	16,522,907		6,310,660	837,128	5,473,532

Lender or loan facility	Facility currency	Total amount in fac. cur.	Undrawn balance	(Col\$'000)		
				Total	Current portion	Long-term portion
Kreditanstalt für Wiederaufbau	Deutsche mark	23.068.320		3.922.736	271.781	3.650.955
Export Development Corporation - EDC Integrated loan	US dollars	45.000.000	25.820.146	6.441.746	-0-	6.441.746
Chemical Bank as Agent Concorde 2/ 2/ 2/ 2/ 2/ 2/ 2/ 2/ 2/ 2/ Private Export Funding Corporation-Pefco Eximbank-USA	US dollars Belgian francs Canadian dollars Netherlands florins Deutsche mark French francs Swiss francs Pounds sterling Japanese yen US dollars	191.283.584 1.274.242 10.472.266 11.349.986 15.316.877 47.503.764 1.123.763 10.433.458 2.067.864.465 170.000.000	170.000.000	64.244.504 11.551 2.953.054 1.909.320 2.911.071 2.642.882 253.216 6.347.859 5.604.720 -0-	-0- -0- -0- -0- -0- -0- -0- -0- -0- -0- -0-	64.244.504 11.551 2.953.054 1.903.320 2.911.071 2.642.882 253.216 6.347.859 5.604.720 -0-
Total				509.514.143	47.911.923	461.602.220

1/ Disbursed in several currencies in an aggregate amount equivalent to US\$ 380.000.000.

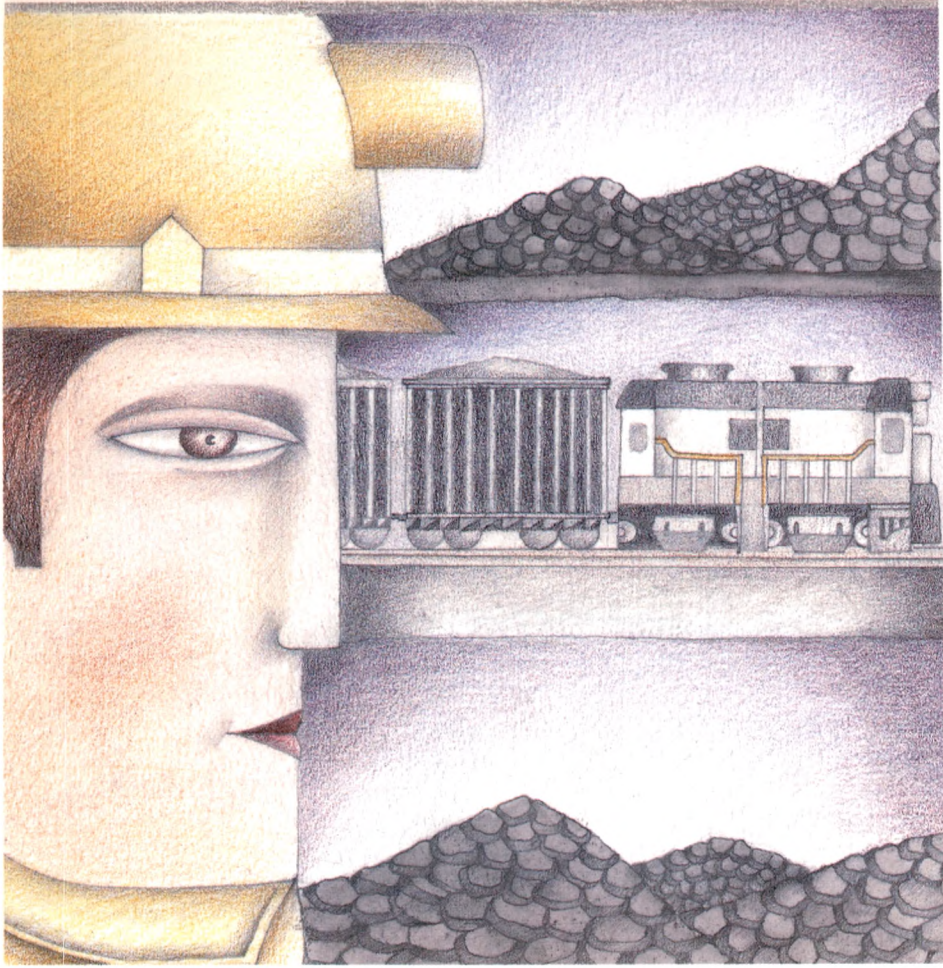
2/ Disbursed in several currencies in an aggregate amount equivalent to US\$260.000.000.

#### NOTE 9 Income tax

Carbocol is entitled to deduct from its income the amount of money invested in operations of coal exploration, exploitation, processing and transformation, and does not therefore make any provision in its books for income tax on its coal sales operations.

The sale of surplus assets and equipment upon completion of the construction stage of the Cerrejón North Zone Complex resulted in a budget loss.





**El Cerrejón North  
Zone: aerial view of  
the main pit.**



**NOTE 10 Share capital**

At december 31, 1988, Carbocol's share capital account was made up as follows:

CARBOCOL'S SHARE CAPITAL ACCOUNT	December 31	1988		1987	
		No. of shares	Amount (Col\$'000)	No. of shares	Amount (Col\$'000)
<b>Authorized capital</b>		84.000.000	84.000.000	64.000.000	64.000.000
LESS:					
<b>Unsubscribed shares</b>		14.390.374	14.390.374	8.390.374	8.390.374
<b>Subscribed and paid-up shares</b>		69.609.626	69.609.626	55.609.626	55.609.626

**COMPOSITION OF SHARE CAPITAL** December 31

Shareholders	No. of shares subscribed	No. of shares subscribed and paid up	Amount of capital subscribed (Col\$'000)	Amount of capital subscribed and paid up (Col\$'000)	% of capital subscribed
Ecopetrol	41.209.790	41.209.790	41.209.790	41.209.790	59.20%
Proexpo	26.280.879	26.280.879	26.280.879	26.280.879	37.75%
I.F.I.	2.039.465	2.039.465	2.039.465	2.039.465	2.93%
Ecominas	39.490	39.490	39.490	39.490	0.06%
Ingeominas	40.000	40.000	40.000	40.000	0.06%
Colminas	2	2	2	2	0.00%
<b>TOTAL</b>	<b>69.609.626</b>	<b>69.609.626</b>	<b>69.609.626</b>	<b>69.609.626</b>	<b>100.00%</b>

**NOTE 11 Distribution of administrative costs**

Administrative costs are classified as direct or indirect.

Direct administrative costs are those identified with a specific project, while indirect administrative costs are general operating costs. On the basis of the percentage distribution of time taken up in 1988, as revealed by a survey conducted by the company, indirect administrative costs were distributed as follows:





**Small and medium  
scale mining industry:  
manual screening  
process.**





		%	
		1988	
<b>To balance sheet accounts</b>	Cerrejón North Zone Complex	16.6	
	San Luis (Santander) project	2.46	
	Amagá (Antioquia) project	1.66	
	El Descanso (Cesar) project N.C.F.	2.88	
	San Jorge project	1.32	<u>24.92</u>
<b>To profit and loss accounts</b>	North Zone Complex operation	23.35	
	Central Zone operation	23.15	
	National Coal Fund (N.C.F.) <sup>±/</sup>	7.17	
	Commercial activity	9.32	
	Mining development program	12.09	<u>75.08</u>
<b>Total</b>			100.00

<sup>±/</sup> The National Coal Fund's costs were incurred in connection with the administration provided for by Law 61/79 and are recovered through payment of 5% its funds.

## DISTRIBUTION OF ADMINISTRATIVE COSTS

December 31

1988

		(Col\$'000)		
<b>Total administrative costs</b>	Carbocol		2.871.692	
	LESS: INDIRECT ADMINISTRATIVE COSTS			
	Central Zone	469.126		
	Regional development	84.297		
	Exploration and exploitation	28.296		
	National coal fund	46.763		
	Administration of contracts	33.812		
	Mining development	160.663		
	Technical services management	79.115		
	North Zone non-recoverable VAT	77.013	<u>979.085</u>	
	<b>Total available for distribution</b>		<u>1.892.607</u>	
<b>Distribution</b>	<b>TO BALANCE SHEET ACCOUNTS</b>			
	16.60%	North Zone Complex	314.173	
	2.46%	San Luis Project	46.558	
	1.66%	Amagá Project	31.417	
	2.88%	El Descanso Project	54.507	
	1.32%	San Jorge Project	24.982	<u>471.637</u>
	<b>TO RESULTS ACCOUNTS (PROFIT AND LOSS)</b>			
	23.35%	North Zone Complex operation	441.924	
	23.15%	Central Zone operation	438.139	
	7.17%	National coal fund	135.700	
	9.32%	Commercial activity	176.391	
	12.09%	Mining development	228.816	<u>1.420.970</u>
		<b>Subtotal distributed costs</b>		<u>1.892.607</u>
		<b>PLUS NORTH ZONE ADMINISTRATIVE COSTS CHARGED TO PROFIT &amp; LOSS (16.6%)</b>		<u>27.903</u>
	<b>Total distributed costs</b>			<u>1.920.510</u>





**El Cerrejón Central  
Zone: truck unloading  
station and silos.**



## A. North Zone

Coal production began in 1985. In a first stage extending to February 1986, so-called "Early Coal" was mined and was costed at market price.

In March 1986 the operating stage for continuous exploitation of the mine was started. From then on, therefore, the cost of production comprised direct and indirect costs of the mine, railroad and port in respect of materials and supplies, wages and benefits, contracted services and general expenditures, and the levy to the National Coal Fund.

Beginning in 1987, to the cost of production was added the amount of depreciation on the mining equipment, applied in accordance with the level of productivity, which was 58.46% at December 1988 (51% at December 1987). For purposes of presentation in the profit and loss statement this depreciation has been reclassified as an operating cost, so as to highlight its impact on operating profit (loss).

The project's depreciable fixed assets showed the following cost at December 31, 1988:

		<i>(Col\$'000)</i>
<hr/>		
Purchase cost		113.477.833
Financial expenses		54.189.418
Exchange difference accumulated to Dec. 31/87	184.144.134	
For 1988	<u>84.593.490</u>	<u>268.737.624</u>
		436.404.875
Less accumulated depreciation		<u>70.898.576</u>
Total		<u>365.506.299</u>
<hr/>		

The depreciable value is made up of the historical cost, the exchange difference capitalized up to 1987 and financial expenses capitalized up to 1986.

The mining-equipment depreciation charged to profit and loss comprises the following:

		<i>(Col\$'000)</i>
<hr/>		
Historical cost		3.775.352
Financial expenses		1.730.775
Exchange difference		<u>9.051.111</u>
Total		<u>14.557.238</u>
<hr/>		

Financial costs for 1987 and 1988 in respect of the mining equipment were charged to the respective year's results in proportion to productivity.

The difference, including the portion relating to the other assets, is part of the capitalized costs to be amortized upon completion of the start-up stage.

Depreciation is computed by the straight-line method over the probable useful life of the equipment (5, 10 and 20 years).



**NOTE 12 Coal production costs**

**B. Central Zone**

Exploitation of the Central Zone mine, carried out by the firm of Pinsky & Asociados, produced 111.400.5 metric tons of coal.

The total cost of production is determined by adding to the production charge the 5% mining levy payable to the National Coal Fund, depreciation on mining machinery and equipment, and the cost of transportation to the port of embarkation.

At December 31, 1988 the cost of sales amounted to Col\$655.321.000 and depreciation to Col\$105.521.000.

To show the impact of depreciation, it is presented reclassified as an operating cost.

**NOTE 13 Legal reserve**

Under Colombian law, 10% of net annual profit must be appropriated to a legal reserve until the amount of the reserve reaches 50% of the subscribed capital.

The legal reserve may not be distributed before the company is wound up but may be used to absorb losses.

The company's accumulated losses are as follows:

	<i>(Col\$'000)</i>
1986	914.304
1987	6.588.742
1988	<u>22.553.865</u>
	<u>30.056.911</u>

Accordingly, there has been no increase in the legal reserve.

**Settlement of contract with the Domi-Prodeco-Auxini Consortium**

On July 17, 1981 Carbocol signed a contract with the Domi-Prodeco-Auxini Consortium for mining 10.000.000 metric tons of coal in the Cerrejón Central Zone. The contract included, in addition, the design, supply, assembly and equipping by the Consortium of all installations in the area required for the work.

On the basis of studies and cost analyses carried out by the company's management and subject to the conditions of termination laid down in the contract (Clause 255), the contract was unilaterally terminated by Carbocol as of September 1, 1985.

Thereupon the Legal Representative of the Consortium presented a claim to Carbocol.

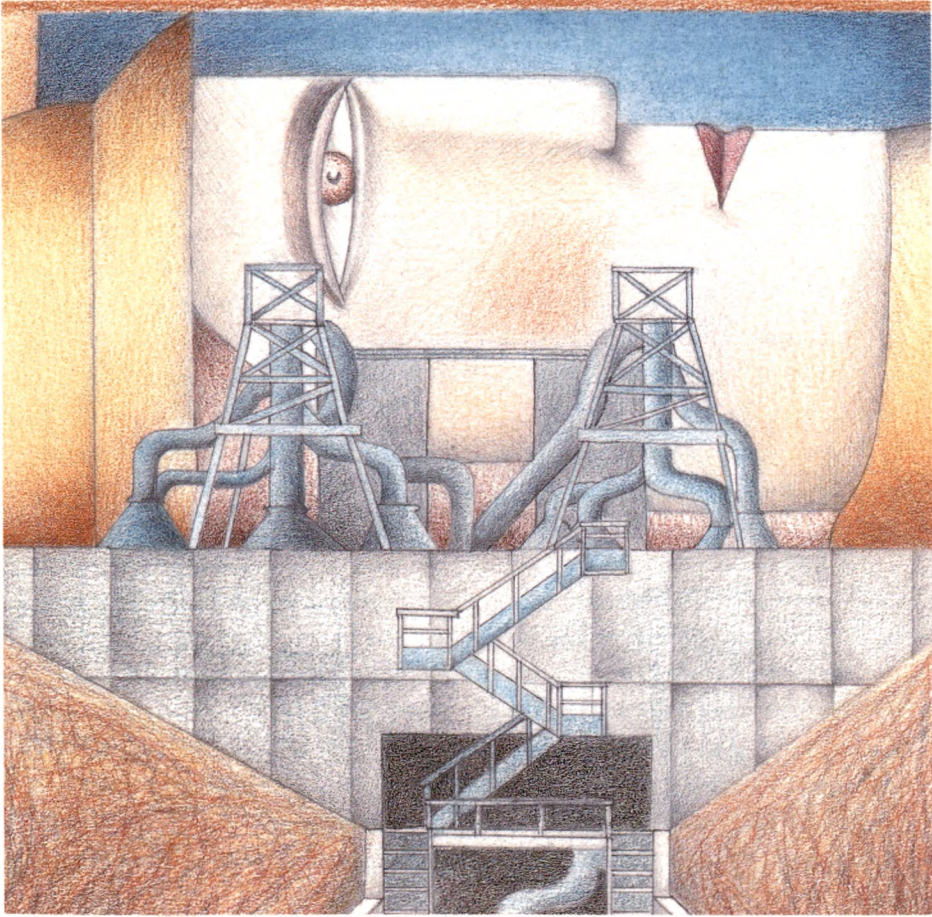
The management of Carbocol proceeded to take steps to settle the contract by a direct arrangement, or through arbitration proceedings provided for in the contract, as a last resort.

As a result of this effort, an agreement was signed between the parties on March 13, 1987, in which it was agreed that Carbocol would purchase the mining equipment, applying to it the balance of the advance payment made to the Consortium, as well as other assets; it would also make payments to the Consortium for the difference due to distance and ratio, relocation of personnel and the difference due to density and loss of coal, and would pay it interest from September 1, 1985. Amounts were to be determined by applying the rate of exchange between Colombian pesos and dollars in effect on August 31, 1985.

The agreement did not cover other claims, which were submitted to the Arbitration Tribunal.

In the arbitration proceedings relating to the contract for exploitation of the Central Zone, signed with the Domi-Prodeco-Auxini Consortium, an award dated March 4, 1988 was given ordering Carbocol to pay a sum of Col\$11,259 million for consequential damages, loss of profit and costs. Carbocol's management, with the authorization of the Board of Directors, proceeded to file an appeal before the Council of State to set aside the award.





**El Cerrejón North  
Zone: truck unloading  
station and silos.**





Bogotá, March 29 de 1989

To the  
SHAREHOLDER'S GENERAL MEETING  
Carbones de Colombia S.A. "Carcobol S.A."  
Bogotá

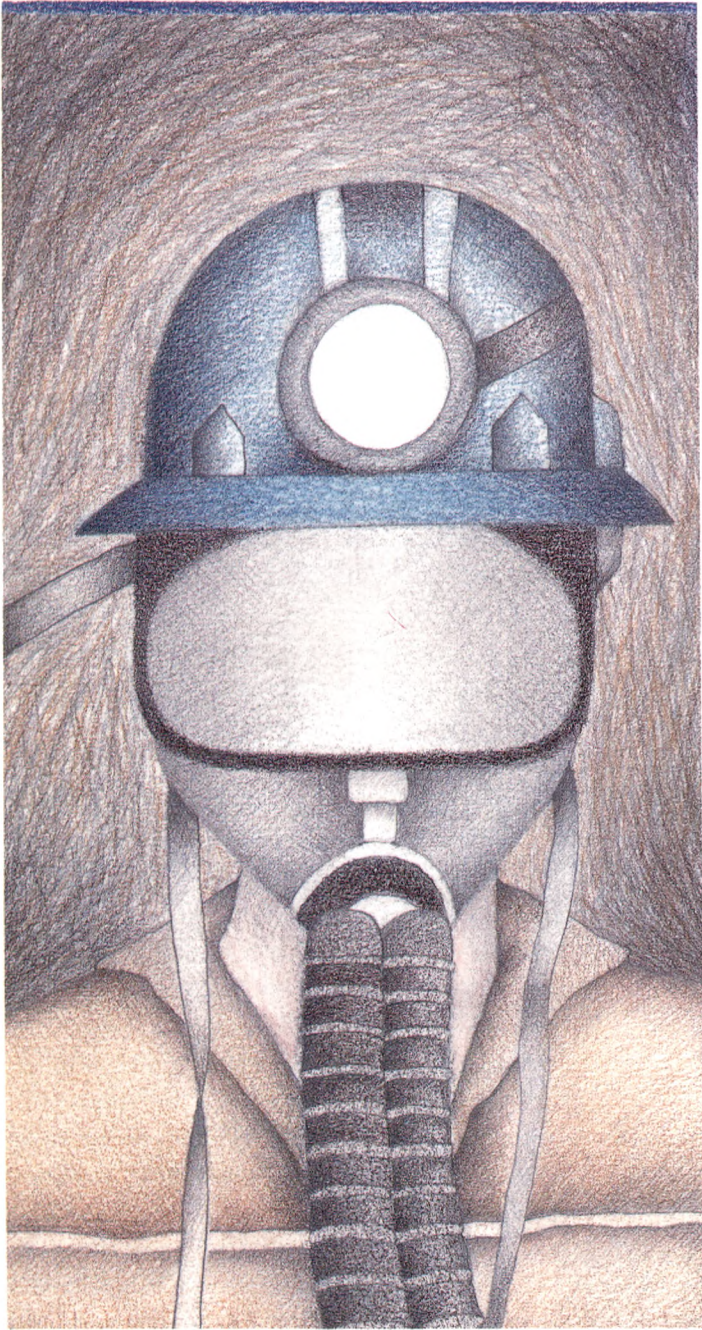
I have examined the attached Balance Sheet of Carbones de Colombia S.A. at December 31, 1988 and 1987 and the related statements of profit and loss and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Save as explained in the following paragraphs, my examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

According to the Financial Statements attached hereto the company's investment in the Cerrejón North Zone exploitation and development project amounted to Col\$ 553.347 million at December 31, 1988 and Col\$ 420.551 million at December 31, 1987; these amounts represent about 92.3% and 95.7% of the total assets of Carcobol S.A. in said years. The company's records do not provide sufficient evidence to support these transactions in accordance with provisions of the Code of Commerce, Article 53, which make possible the application of appropriate checking procedures consistent with those laid down in Law 20 of 1975 and the Controllership General's Organic Resolution No. 010193 dated August 23, 1983. For this reason I was unable to obtain evidence of the reasonableness of said figure, for such transactions are made by the company on the basis of the books and supporting documents of the Operator, Intercor, as is explained in Note 1 to the Financial Statements.

The Cerrejón North Zone project is executed by the operator, Intercor, under an association agreement between Carcobol S.A. (a State Commercial and Industrial Company) and Intercor (a subsidiary of Exxon Corporation), and the results thereof are presented in the balance sheet and the statements of net expenditures and of source and application of funds of the Joint Venture. I have not examined these financial statements, which show total assets amounting to Col\$ 284.144 million and Col\$ 277.523 million at December 31, 1988 and 1987, respectively, and net expenditures distributed between the owners amounting to Col\$ 94.557 million and Col\$ 72.457 million during the said years. These financial statements have been examined by other auditors, whose reports have been furnished to me, and my opinion, as far as amounts included in the Joint Venture are concerned, is based exclusively on the report of said auditors.

As shown by the financial statements, the company has incurred substantial losses in the last years, amounting to Col\$ 22.554 million and Col\$ 6.589 million at December 31, 1988 and 1987, respectively. The losses would be considerably greater if financial expenses consisting of interest and fees on loans (and amounting to Col\$ 94.743 million at December 31, 1988 and Col\$ 29.401 million at De-





**First aid and safety brigades: a solid element for the small and medium scale underground mine development.**





been charged to the year's results.

Owing still to the impact of lower-than-projected prices and other economic factors, the rate of return on investment continues to be negative and may remain so in the future. Considering that the company's debt in respect of financial obligations alone totalled Col\$ 540.789 million at December 31, 1988, this situation could grow worse, and the company's continuance as a going concern and recovery of its assets would therefore become dependent on the uncertain behaviour of coal prices and demand, which would make it questionable that adequate funding could be raised to meet such obligations on time.

As described in Notes 1, 6 and 12 to the Financial Statements, the company has capitalized the costs and expenditures incurred by the Operator, Intercor, plus the costs, exchange differences, financial expenses and administrative costs incurred by Carbocol itself in respect of the Cerrejon North Zone project, which amounted to Col\$ 483.038 million at December 31, 1988 and Col\$320.257 million at December 31, 1987. This capitalization is due to the fact that, for tax purposes and in the opinion of the company's management, the Cerrejon North Zone is still in the stage of "development or testing and start-up". The company's Financial Statements do not include any adjustments relating to the recovery and reclassification of assets or to the amounts and reclassification of liabilities that might become necessary should the company ever become unable to carry on its business.

As indicated in Note 14 to the Financial Statements, there is a claim pending against the company that was brought by the Domi-Prodeco-Auxini Consortium and submitted to an arbitration tribunal, which on March 4, 1988 gave an award ordering Carbocol S.A. to pay Col\$ 11.259 million in consequential damages, loss of profit, and costs; and the provision made in this connection amounts only to Col\$ 991 million. The company has filed an appeal to the Council of State to set aside the award. The final outcome of this action cannot be determined at the moment, but a decision against the company will affect the profit and loss statement noticeably because of the obligation to meet the final judgment amount.

Owing to the matters referred to in paragraphs 2 and 3 as regards limitation of the scope of my examination and to the uncertainties pointed out in paragraphs 4, 5 and 6, it is not possible for me to render an opinion and I do not therefore give any opinion on the reasonableness of the Financial Statements mentioned above.

/seal and signature of/

EDINSON LUIS VILORIA MARULANDA

Chief Government Auditor to Carbocol

Controliership General of the Republic



To the Shareholders and President of  
 Carbones de Colombia S.A. – Carbocol  
 Bogotá

We have audited the balance sheet of Carbones de Colombia S.A. - Carbocol at December 31, 1988 and the related statements of profit and loss and unappropriated profit and of changes in the financial position for the year then ended. Preparation of said statements was the responsibility of the company's management; ours consists in rendering an opinion on these financial statements on the basis of our audit.

Our auditing was done in accordance with generally accepted standards. These standards require us to plan and perform our work with the object of achieving a reasonable degree of certainty that the financial statements do not contain any wrong or false information of a material nature.

An audit involves an examination, by testing, of the evidence supporting the figures and information disclosed in the financial statements. It also involves an evaluation of the accounting principles applied and of the important estimates made by the company's management, as well as an evaluation of the general presentation of the financial statements. We believe that the audit we have performed constitutes a reasonable basis for our opinion given here.

Main facts to point out:

– An association agreement is in force between Carbocol and a transnational company for a Joint Venture to exploit coal from the Cerrejón North Zone. The total investment made by Carbocol at December 31, 1988 was Col\$ 553,347 million, of which 26% is reported by the Operator, together with the exploitation costs.

– The Cerrejón North Zone Complex is in the stage of testing and start-up, and therefore Carbocol is accumulating costs and expenses so as to apply them to future income. Recovery of these costs and the company's financial position depends to a great extent on the future selling price of coal, which cannot be estimated with any certainty at present.

– In 1986 Carbocol unilaterally terminated the contract with the consortium that was in charge of mining in the Central Zone of El Cerrejón, whereupon the contractor presented a claim. This was submitted to an arbitration tribunal, which made its award in 1988, ordering Carbocol to pay Col\$ 11,259 million in consequential damages, loss of profits, and costs. To cover this amount Carbocol has a recorded reserve of only Col\$991 million. However, management has filed an appeal before the Council of State to set aside the award, and the decision is still pending.

– On February 29, 1988 a contract was signed for mining 500,000 tonnes of coal in the Cerrejón Central Zone. The new operator entrusted with this operation initiated proceedings on February 17, 1989 for an agreement with its creditors.

– At December 31, the Carbocol-Intercor association's contingent liabilities in respect of labour, penal and civil actions likely to affect Carbocol's net worth, in the event of adverse decisions, amounted to about Col\$ 1,000 million.

– Ecopetrol is to assume from 1989 Carbocol's debt to an international financing entity, amounting to US\$502.2 million at December 31, 1989, in exchange for shares and/or bonds. The terms of this subrogation are presently being studied by Carbocol and Ecopetrol jointly.

In our opinion, subject to the facts and uncertainties pointed out in the previous paragraphs, the above-mentioned financial statements attached hereto reasonably present all material aspects of the financial position of Carbones de Colombia S.A. - Carbocol at December 31, 1988 and the result of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year.

The financial statements are presented in comparison with those of the previous year. The latter were covered by our report dated March 25, 1988, which revealed uncertainty about continuance of the business, the existence of the arbitral award contingency, and a change in the accounting treatment of depreciation and financial expenses.

/S/ PAEZ Y ASOCIADOS & CIA.  
Bogotá, Colombia  
March 29, 1989



TOUCH ROSS & ASSOC., LTDA.  
 Public Accountants  
 Bogotá, Colombia

To Carbones de Colombia S.A. (Carbocol) and International Colombia Resources Corporation (Intercor)  
 Parties to the Association Agreement for area B of El Cerrejón  
 Barranquilla, Colombia.

We have examined the balance sheet of the Joint Venture (under an association agreement for exploration, installations and exploitation of coal in Area B of El Cerrejón in the department of la Guajira) between CARBONES DE COLOMBIA S.A. - CARBOCOL (a state commercial and industrial enterprise) and INTERNATIONAL COLOMBIA RESOURCES CORPORATION - INTERCOR (a subsidiary of Exxon Corporation) in Colombian pesos and United States dollars at December 31, 1988 and the related statements of shared operating costs of the Joint Venture and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such test of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements for the year ended on December 31, 1987 were examined by other auditors, who issued an unqualified report thereon dated March 11, 1988.

In our opinion the above-mentioned financial statements reasonably present in Colombian pesos and United States dollars the financial position of the Joint Venture at December 31, 1988, the shared operating costs and the source and application of funds for year then ended, in accordance with the accounting procedures laid down in Annex B of the Association Agreement, which do not differ from accounting principles generally accepted in Colombia, and which were applied on a basis consistent with that of the preceding year.

Moreover, we are of the opinion that the Operator has complied with the Association Agreement as regards accounting matters contemplated in Annex B (Accounting Procedures).

/S/ TOUCHE & ROSS ASOCIADOS  
 March 3, 1989  
 Bogotá, D.E. Colombia

"Official Interpreter Translator: Fereshteh Ebrahimpzadeh in compliance with Resolution number 530 issued in the year 1981, by the Ministry of Justice".

Bogotá, Colombia, 1989

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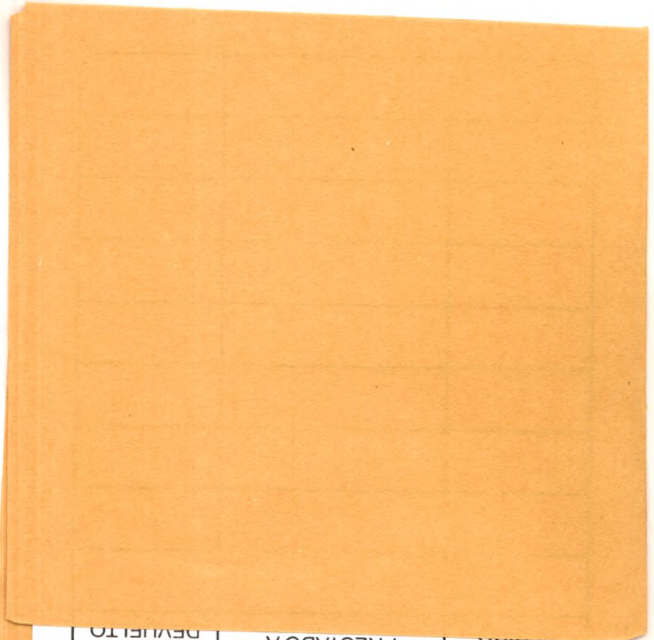
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