

# Annual Report



**CARBOCOL**  
CARBONES DE COLOMBIA S.A.

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**1998**

REPUBLIC OF COLOMBIA

Ministry of Mines and Energy

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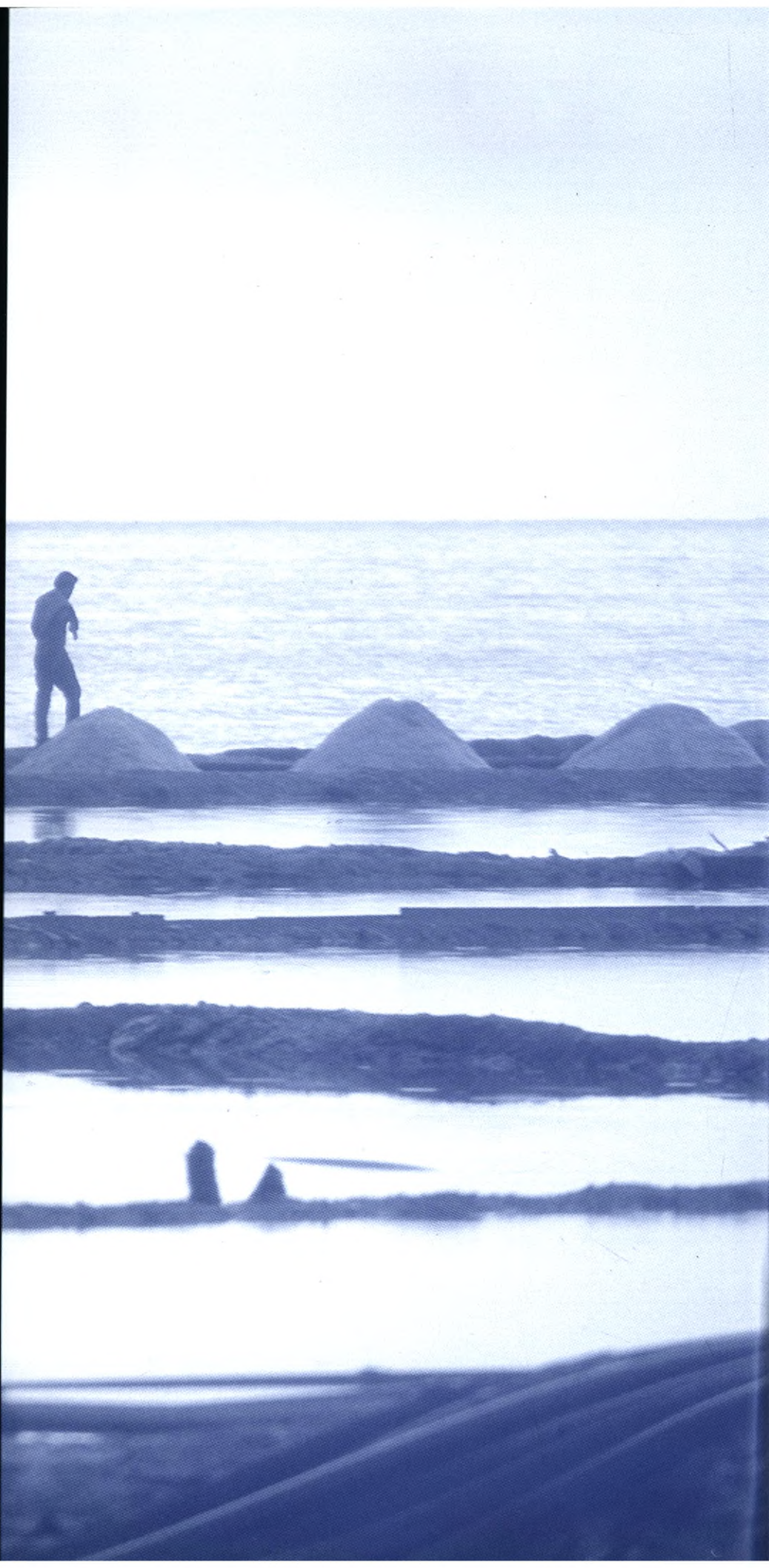
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# ANNUAL REPORT

# 1998





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Main Cover:  
A tribute to the unique Wayuu's craftsmanship  
(Guajira Peninsula, Colombia)



# Board of Directors

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Minister of Finances and Public Credit

CARLOS RODADO NORIEGA  
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General Director of Public Credit

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Assistant Financial Vice-president - Ecopetrol

REPRESENTATIVES TO THE COLOMBIAN PRESIDENT

## *Principal*

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CARLOS MARIO GIRALDO

## *Alternate*

HERNANDO MONROY VALENCIA  
WILLIAM MOURRA BABUN





# Executive Officers

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President

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Operations Vice-president

MARIA MERCEDES REINA ANDRADE  
Commercial Vice-president

CAMILO DIAZ TAFUR  
Financial Vice-president

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General Secretary

JORGE ESCOBAR LOPEZ  
Relations with the Community Chief

JAIME BRITO LALLEMAND  
Administrative Manager

CESAR CROVO JIMENEZ  
Head of the Strategic Planning Office

# Letter from the President

To:  
Shareholders  
CARBOCOL S.A.

In fulfillment of specific legal regulations, together with the Board of Directors I hereby submit the fiscal year results for 1998, the Financial Statements - together with their respective notes - and, as Legal Representative, the yearly operations report for consideration of the General Shareholders Assembly.

1998 was characterized by lower coal prices in the international market. During this year, our exports volume exceeded 9% of that for 1997 (a Puerto Bolivar's record), while the operational income showed an increase of Col. \$65,006 million pesos (18%) with respect to 1997. On the other hand, there was an increasing tendency of long-term negotiations.

Our mine had its best historical production. Operational expenses were substantially reduced, and we were able to meet important productivity standards.

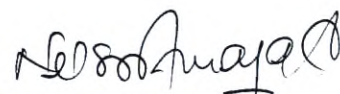
Successful negotiations for the use of the North Zone Cerrejon infrastructure by third party coal producers represented, as we see it, our most important achievement during 1998. The agreements signed guarantee the expansion of the Colombian coal export capacity, since they will allow the country to better use its installed capacity, to compete more efficiently in international markets, to increase employment levels, and to promote foreign investment. For both the company and its owners, this guarantees significant resources

allowing to cover financial deficits generated during the life of the project.

From a financial point of view, the year's results were affected by exchange variations, lower than those of 1997. For this reason, we are showing 20% lower losses than the previous year. The capital structure continues to be extremely important to the company's finances. During 1998, our revenues allowed us to cover operating and operational expenses, and we were able to make the investments required to maintain capacity and to free resources to reduce the short-term debt. The commercial, productive, financial, and operational issues, together with projections for this year, are described in detail in the enclosed report.

An important task remains for 1999: privatization of Government's investment in the North Cerrejon Zone - now possible - subject to guidelines to be drawn by the National Government, based on the fact that the conditions that make it possible have been substantially improved.

I would like to commend the Board of Directors' efforts during the time we held the President's office in one of the most important companies within the energy sector. We are confident that their wisdom will continue to be instrumental to our efforts in facing the challenges of the international coal industry.



Nelson Rodolfo Amaya Correa  
President





# Annual Report

## NORTH ZONE OPERATION

Coal production reached the 15.5 million tons level, 103% of the year's goal and a record figure for North Cerrejon Complex annual production.

Operational expenses were US \$297.7 million, equivalent to 88% of the US \$338.4 million budgeted amount. The US \$40.7 million difference in costs is represented mainly in: US \$12.5 million resulting from exchange rate variations from greater devaluation levels, US \$17 million from lower unit costs of fuels and lubes, and US \$11 million in savings for greater efficiency in various expense accounts, all of which is reflected in a unit production cost of US \$19.20, the lowest ever attained during any year of operation and US \$3.36 million less than the budgeted amount of US \$22.56 per ton.

Looking to increase productivity, operational efficiency, and resource optimization, the workforce was reduced in 140 permanent jobs.

Investments in the Complex totaled US \$44.1 million, represented essentially in the purchase of six 240-ton trucks, for a total of 26 operational units, one hydraulic shovel, four CAT 843B tractors, and in the initiation of the work for the development of the new mining areas.

Record transportation and coal shipment figures were also obtained during the year: 16.7 and 16.8 million tons/year, respectively.

Regarding environmental protection, programs related to the control and monitoring of the main ecosystems being influenced by our operation continued. National and international regulations regarding air, water, and soil quality were strictly followed. In land restoration, 137 hectares were rehabilitated and 110 hectares were revegetated,

exceeding forecasts. Total to date are 1,061 rehabilitated hectares and 538 revegetated hectares.

## COMMERCIAL OPERATIONS

Coal being a basic export item, its contribution within the economic national context continues to be vital.

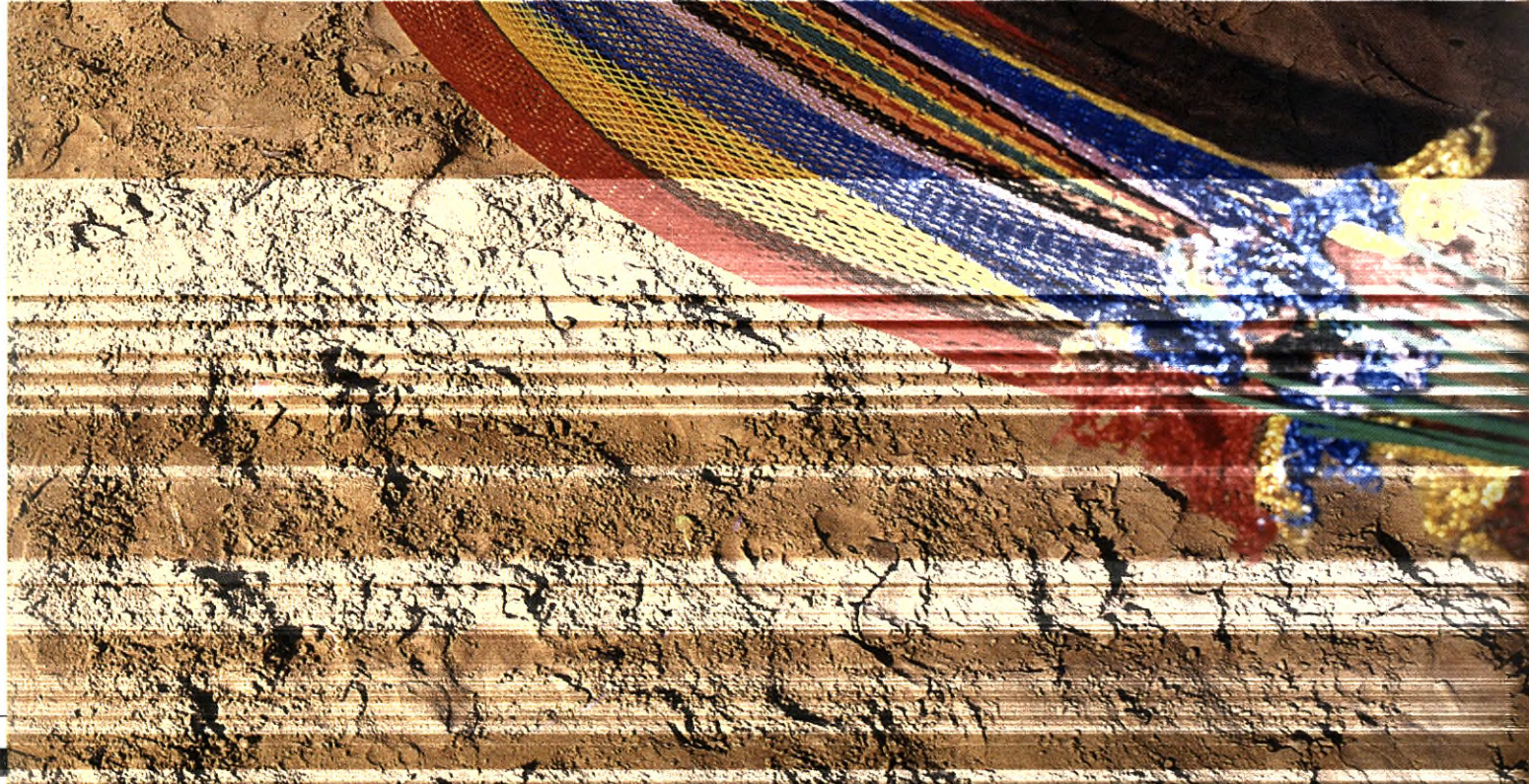
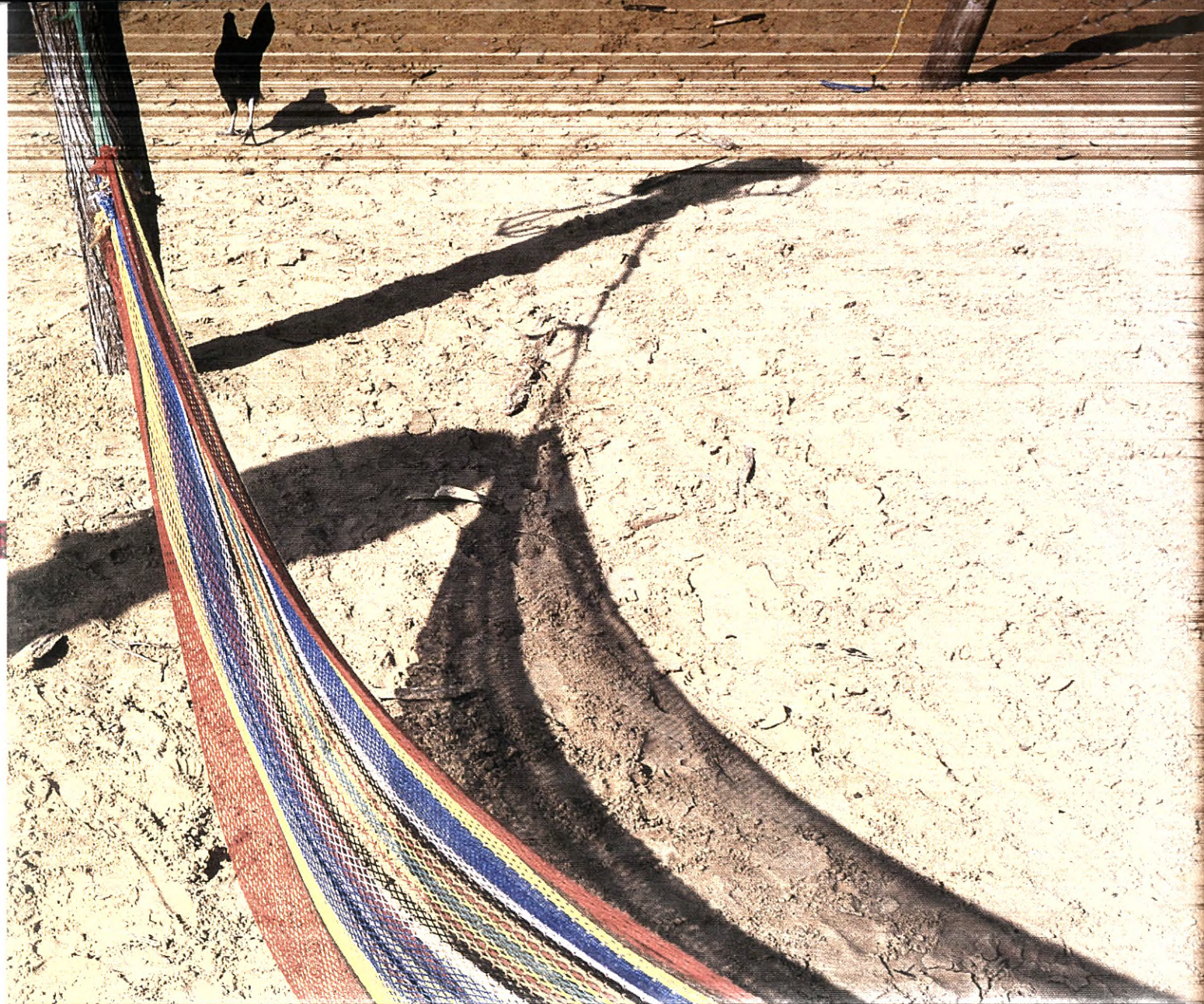
According to the National Planning Department, this sector's contribution to the Trade Balance is over 8% (US \$936 million), while the North Cerrejon Complex accounts for US \$509 million in exports. The Mine accounts for close to 46% of the country's entire coal production.

During 1998, the company exported 8.5 million tons to over 25 clients in 15 countries in Europe, America, and Asia, an increase of 0.8 million tons over the 1997 levels, and of 1.3 million tons over 1996 levels, resulting from greater sales volumes to Europe - mainly France -, the United Kingdom, and Italy.

During these last two years, CARBOCOL met its goal of renewing its long-term contracts, which allowed it to establish an important contractual base for the following years, a necessity to face the challenges imposed by deregulation in the electrical sector and the consequent turnaround of consumers towards opportunity purchases (spot market).

The main customers with whom CARBOCOL has been able to renew its long-term contracts are: Sideco and Capcol (EDF) in France, Tractebel in North Ireland, Preag in Germany, Carboex in Spain, NCSC in Israel, Puerto Rican Cement and US Gen NE in the United States, and Enel in Italy.

New contracts were signed with Total in France, Aceros Arequipa in Peru, as well as two additional contracts in Portugal, one of which involves an alternate quality product (D quality).



## FINANCIAL SITUATION

Worth mentioning are the new opportunities with the industrial markets in the United Kingdom, in France, and in Germany, using traders with the necessary technical and logistical capacity to access such fragmented markets, as well as commercial operations with new customers in the PCI market (Pulverized Coal Injection), as is the case with Posco in Korea.

1998 saw the conclusion of the negotiation process and the signing of the first IPP (Independent Power Producers) contract in Guatemala, a long-term venture allowing us to place 250,000 tons from year 2000 and to consolidate our position in this new market segment.

During 1998, CARBOCOL purchased 1.1 million tons of high-quality coal from Central Cerrejon, giving the Association a greater flexibility in handling its products and representing an additional source of income. Similarly, it meant an opportunity to use excess railroad and port capacity.

A total of 35% of our production was sold in CIF contracts, through an excellent shipowner portfolio, which represents an important tool to improve our consumer negotiation ability and to optimize port operations.

With all of the above, CARBOCOL has strengthened its position as a first rate exporter for the Atlantic market. As a Complex, the North Cerrejon holds its position as the largest export mine in the world, with an impressive long-term customer portfolio, and as the second supplier for the European market.

In addition, the company continues to be a leader in marketing intelligence. This allows it to optimize commercial decision making and to influence the industry's opinion regarding the structures and tendencies of the international market.

During 1998, the steam coal market was characterized by a low demand growth, and as such, by a bearish price environment. In our case, price reductions, as compared with the previous year, amounted to 12% (US \$4.20/ton), a similar situation to that of Intercor, our partner.

To summarize, we can say that 1998 was a difficult year with regard to prices, although successful with regard to order placement: the North Cerrejon exports totaled 16.8 million tons, i.e. 1.8 million tons above the design capacity, which partially offset the effects of the market's deterioration on our company's revenues.

On December 31, 1998, the Company reported losses of \$127,877 million. This result is due to a reduction in prices in spite of increases in sales, and to debt interest payments (financial expenses of \$387,245 million in 1998 against \$387,716 million in 1997). Devaluation affected the year's results in \$269,125 million (\$299,690 million in 1997) due to exchange rate differences.

Operational revenues totaled \$432,475 million, including freight and insurance for CIF sales, corresponding to the sale of 8.4 million tons of coal<sup>1</sup>, with an 18% increase with respect to 1997 revenues. Costs of coal sold totaled \$360,107 million, with a gross profit of \$72,368 million.

Operational costs totaled \$94,174 million, including non-monetary values (not representing disbursement) for \$41,681 million, corresponding to depreciation, amortization, and reserves, for an operational loss of \$12,769 million.

Carbocol's cash flow for 1998 showed an operational surplus of US \$45.4 million, i.e., revenues were sufficient to cover operational costs, administrative expenses, investments, and taxes.

The long-term financial requirements (US \$162.6 million) were covered through financing operations with the Nation, FEN, and Leasing Financiero (US \$133.9 million), and with operational surplus (US \$28.7 million). The balance of the operational surplus (US \$16.7 million) was used to reduce short-term indebtedness levels.

During the last quarter, the average cost of short-term credit lines increased from Libor +0.75% to Libor +1.27% as a result of the impact in emergent markets and the world economic crisis.

On December 31, 1998, the debt totaled US \$1,074.2 million, of which 88% (US \$941.5 million) are long-term and US \$132.7 million are mid and short-term. Long-term foreign debt (US \$549.9 million) includes integrated loans, totaling US \$392 million (43% of the total long-term debt). Local debt is US \$524.3 million, 82% of which is represented in Government loans (US \$430.9 million).

It should be noted that, on account of royalties generated by the Complex and paid by Intercor, CARBOCOL paid a total of \$30,256 million to the Guajira Department during 1998, to the municipalities of Barrancas, Hatonuevo, Uribia and to the National Royalties Fund. On the other hand, the coal production tax paid by the Company was \$5,673 million, distributed among the Guajira Department and the municipalities of Barrancas and Hatonuevo.

### **NEGOTIATIONS WITH INTERCOR AND WITH THIRD PARTIES**

Agreements were signed with Intercor during 1998, represented in the so-called "Integral Agreement" subscribed between the Nation, CARBOCOL, and Intercor, which addresses issues such as third party access to the infrastructure, participation of private capital in CarboCOL's participation in the North Cerrejon Complex, aiming to increase production, expand the infrastructure, and extend the contract for 25 additional years.

The so-called "General Agreement" was executed between CARBOCOL, Intercor, and Carbones del Cerrejon S.A. in development of the Integral Agreement, outlining the general basis for the CDC agreement regarding railroad and port infrastructure, operational issues, investment, volumes, amounts, Early Access payments, and the economic agreement for Permanent Access.

### **OTHER ACTIVITIES DEVELOPED**

A process to adapt the Company's computer systems was initiated in order to face the millennium change. A multidisciplinary task force was formed, responsible for the preparation of the Year 2000 Action Plan.

In development of this Action Plan, an inventory of all elements likely to be impacted was prepared, including hardware, software, data, and computer services. All non-Y2K compliant equipment was changed.

Necessary budget resources were allocated for 1999 in order to adjust information systems and prepare contingency plans and tests allowing CARBOCOL to enter the next millennium problem-free.

Community programs developed by CARBOCOL and benefiting the Complex area of influence in the Guajira Department continue to be strengthened.

The following should be mentioned: supply of water to local communities through windmill-driven wells, ponds and water holes; the environmental education program, through an agreement with the Fundacion Pro-Sierra Nevada de Santa Marta; municipal libraries; recovery and expansion of health centers, classrooms, and parks through agreements with the department mayor's offices; institutional strengthening with departmental and municipal administration; promotion of cultural and sporting events, such as the Wayüu games.

To conclude, and as a supplement to regulations on this subject, it is worth mentioning that notes to the financial statements include, among others, CarboCOL's active and passive legal procedures as an Annex to the annual report.

### **PROSPECTS FOR 1999**

#### **NORTH ZONE OPERATION**

Production for 1999 will be 16.6 million tons, an additional 1.1 million tons to the 1998 volumes. We will export 17 million tons of our own production. CARBOCOL has already initiated commercial efforts to place 50% of the production available for sale.

US \$59.7 million have been budgeted for this year's investments, half of which corresponds to CARBOCOL, and which will be destined mainly to the purchase of ten 240-ton trucks, one hydraulic shovel, conclusion of construction, development of new mining areas, and investments required for early expansion of the railroad and port infrastructure by 3 million tons/year for third parties, and by 1 million tons/year for the North Cerrejon Association (available from year 2000).

Estimated unit costs will be US \$18.52, compared to US \$19.20 for 1998. This represents an important challenge to the operation. In order to generate the most benefits for the associates, plans for organizational optimization, new activities for both equipment and infrastructure performance improvements, and cost reduction and production/exports increases will continue to be implemented.

During 1999, necessary activities will be initiated to adapt processes and facilities, in fulfillment of commitments under the Agreement regarding Early Third Party Access to the transportation and coal-shipping infrastructure.

## COMMERCIAL ACTIVITIES

CARBOCOL has already begun the 1999 commercial activities required for placement of its 50% share in the North Cerrejon Complex production. It has been estimated that each associate's share will be 8.5 million tons, representing a 0.2 million tons increase in the Association's export levels.

As a result of 1998 activities, and especially of the commercial strategy of maintaining early and constant 15-month placement - at a level of 750,000 tons/month -, we have started this year with sales of 1998 deferred tonnage (carryover) with a fixed price, 2.2 million tons. Adding to this figure the long-term contractual volumes already negotiated (3.3 million tons) and the contractual volumes pending price definition, we see that the volume for 1999 is 7.2 million tons, representing 85% of 1999 planned exports. The remaining 50%, plus year 2000 sales, represent the additional commercial efforts that CARBOCOL must undertake in the spot market, and sales through new term contracts.

No immediate price recovery is expected under the current international market conditions. On the contrary, there is a distinct possibility that the market may not have yet bottomed, so that South African coal prices, used as a reference for Colombian coal in Europe, may drop US \$1-2 per ton below current levels.

Should no positive events modifying this tendency occur before the end of 1999, all coal producers, at a global level, will be facing a new drop in prices for their long-term contracts for deliveries during 2000.

Considering the expansion of the North Cerrejon mine, the existing marketing plan will be reviewed under a 23 million-ton export scenario. Objectives and commercial strategies will be defined in order to make placement of this tonnage possible. These results will be the framework for the company's commercial activities during the next five years, and will include commercial policy guidelines required to cope with the steam coal international market transformation, the confluence of the electrical power generation market, the substitution of domestic production in Europe, competition from alternate fuels such as natural gas, and the strong growth projected for exports from La Loma and Cerrejon Central.

In a market that shows structural oversupply tendencies, our cost reduction and portfolio optimization challenges become even more important, as is our commitment to facing them.

## FINANCIAL SITUATION

Cash flow projections for 1999 show operational surplus, i.e., revenues will cover operational costs, administrative expenses, investment, and taxes. To cover our financial requirements, financing operations with the Nation will be carried out, together with short-term operations (export pre-financing and treasury loans) required for working capital needs. We expect to finish the year with a positive cash flow, before debt service.

From a financial statement perspective, profit or losses in the 1999 statements will basically depend on:

- The devaluation rate, which generates an exchange difference on foreign currency loans since they must be registered in Colombian pesos using the month-end's market representative exchange rate.
- Monetary correction, since non-monetary assets must be adjusted using the TYAP index (Taxable Year Adjustment Percentage) provided by DANE at the end of each month.
- A greater reduction in coal prices.

## THIRD-PARTY ACCESS TO NORTH CERREJON INFRASTRUCTURE

On January 18, 1999, and in development of the Integral Agreement and the General Agreement, four documents were subscribed defining renegotiation of the Contract of Association and third party access to the infrastructure and its operational railroad and port systems.

In development of these agreements, early infrastructure expansion will be initiated. It is expected it will be concluded by the year 2000, and will increase export capacity by 4 million tons/year. These agreements bear tremendous importance to the country, since they represent an increase in exports, through the Complex infrastructure, from the current 17 million tons to close to 41 million tons during the next few years. Just the North Cerrejon Complex will grow from 17 million tons/year to 23 million tons/year.

## PRIVATIZATION

Phase II of the agreement subscribed with the Chase-Salomon Brothers consortium will continue, once the

National Government defines when the process of CARBOCOL SA sale will begin.

This agreement was subscribed in 1997, and includes 2 phases, mainly:

**Phase I:** assist the government and CARBOCOL in the negotiation with Intercor issues such as: production increase of the North Cerrejon mine; extension of the current Contract of Association term; issuance and evaluation of new possibilities allowing third party access to areas close to the transportation and port infrastructure in the North Cerrejon Complex.

**Phase II:** design and implement a strategy through which the government will be able to maximize revenues, with a possibility of alienating Carbocol's ownership in North Cerrejon.

Following is a summary of the agreements subscribed.

A. Modification to the Contract of Association between CARBOCOL and Intercor for North Cerrejon's operation.

The objective is to grant third-party access to the infrastructure, allow for private capital investment in Carbocol's participation in the Contract of Association, thus strengthening the non-operator's position, and allow for the expansion of the mine.

The following aspects are involved:

- Intercor recognizes the Nation's right to sell its participation in the North Cerrejon Complex.
- Access is allowed to other producers in the Cerrejon area (initially Carbones del Cerrejon) to the North Cerrejon infrastructure, as per terms and conditions outlined below.
- The Contract of Association is extended for an additional 25 years - until 2034 - making it possible to make large investments for mine expansion and providing it with the same time horizon third parties have.
- The current mine production level of 17 million tons/year is increased in 6 million tons/year.
- The possibility of making the mine expansion under the "risk only" mode is anticipated, should either party decide not to commit to the expansion.

- In order to strengthen the non-operator's position in the contract, consideration is given to the intervention of a negotiator to resolve any technical disagreement arising during the operation.

- Regarding consideration for the expansion, third party access to the infrastructure is facilitated. Intercor will continue to pay 15% ROM (run of mine) royalties on its production after year 2009, and will additionally pay CARBOCOL 5% on its operational profits beginning this same year, as per the formula contained in the Agreement.

- Third-party compensation paid for infrastructure access will be distributed as follows:

- a) For CARBOCOL, in million dollars, 70% of the entry rights received from third parties, minus 20 million dollars to be delivered to Intercor.

- b) For Intercor, in million dollars, 30% of the entry rights received from third parties, plus the above-mentioned 20 million dollars.

In no case will CARBOCOL receive less than 50% of third-party entry rights compensation.

- In order to promote private capital investment in Carbocol's rights in the Contract of Association, it has been decided that, should Intercor initiate serious negotiations or receive an offer to negotiate or assign its rights in the Contract of Association within the next three years, Intercor will so notify CARBOCOL and will request from the interested party an additional purchase offer for all of the Associates' rights. CARBOCOL may accept or reject this offer. Should CARBOCOL decide to accept it, the resulting proceeds will be equally distributed between the parties, after deducting the net present value that Intercor must pay CARBOCOL. This also applies should CARBOCOL decide to assign its rights.

B. Main Agreement on third party infrastructure access.

Addresses the following main aspects:

1. Compensation mechanism.

Compensation to be paid by third parties for access to the railroad and port infrastructure in the North Cerrejon

is based on the volumes that they have the right to transport during the life of the project.

Initially, they have the right to transport three million tons/year from early infrastructure expansion until 2003, for which they will pay an "Early Access Initial Compensation", of an order of magnitude of US \$25 million plus US \$1.5 per ton moved during this period of time.

Prior to December 31, 2002, third parties will have the option to commit to a minimum infrastructure expansion of seven million tons/year, to be concluded by December 31, 2004. For this, they will pay a long-term compensation of US \$100 million, from which amounts paid for the early-access initial compensation will be deducted.

Finally, prior to December 31, 2004, third parties will have the option to increase infrastructure use to a maximum total of 18 million tons/year, from which they will pay a subsequent long-term access compensation (SPAF) of US \$6.50 for each ton of capacity they have used above 10 million tons/year of accumulated capacity.

Consequently, total compensation will be US \$152 millions, should all options be exercised, equivalent to the right to transport a maximum of 18 million tons/year.

## 2. Expansion investments

Investments and operational expenses will be covered proportionally to the rights each party has in infrastructure expansions (CATE).

Total investment for the Early Access expansion phase (equivalent to four million tons/year) has been estimated in US \$41 million, which will be paid as follows: 75% by third parties for a three million ton expansion right, and 25% by the North Cerrejon Consortium (Carbocol-Intercor) for a one million ton expansion right.

A feasibility study will be developed for the long-term access, the cost of which will be covered as follows: 90% by third parties, and 10% by CARBOCOL and Intercor, as a basis for the long-term expansion, for a total of 20 million tons/year.

## 3. Transportation and shipping volumes

- Current North Cerrejon capacity: 17.0 million tons/year
- Early expansion: 21.0 million tons/year (18 million North Cerrejon + 3 million third parties)
- Final expansion: 41.0 million tons/year (23 million North Cerrejon + 18 million third parties)

## 4. Payment for withdrawal

Should third parties not have made a decision for the long-term expansion before December 31, 2002, for a minimum volume of seven million tons/year, they will be liable for the following withdrawal payment:

- US \$20 million directly to CARBOCOL
- All investments made by third parties in the infrastructure will revert to the North Cerrejon and to CARBOCOL.

Should third parties default, or should nullity be declared, they will pay CARBOCOL, as a withdrawal penalty, the same amount of US \$20 million; reversion will also apply.

## C. Railroad and port infrastructure contracts

The purpose of these contracts is to regulate issues related to joint operation of the railroad and port infrastructure, as well as its future expansion and development.

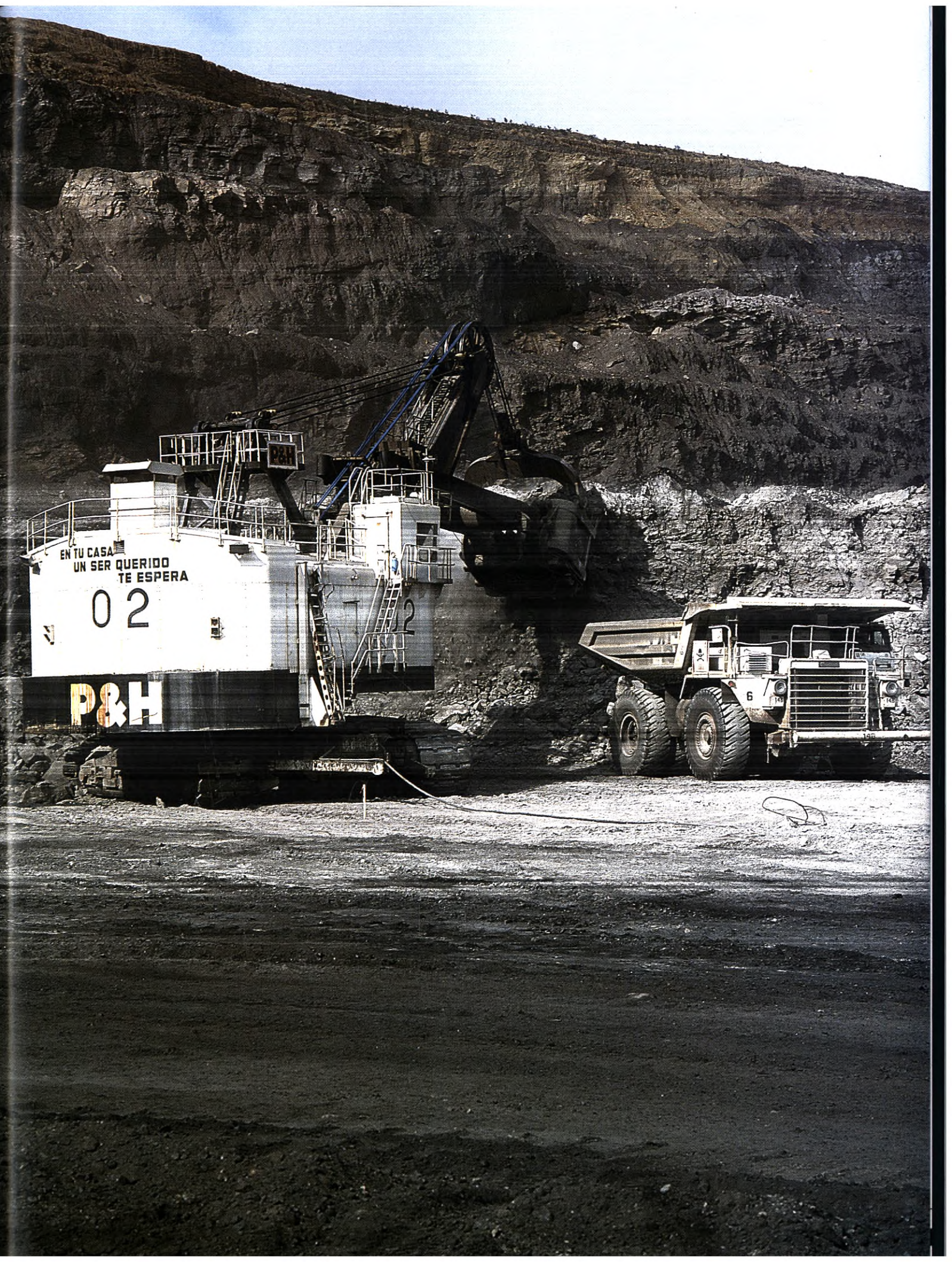
These contracts will come into effect upon long term infrastructure expansion investment (2004).

## BENEFITS FOR THE NATION

- **Fiscal impact:** 60% increase in taxes and royalties, adding to a total of US \$760 million in net present value.
- **Foreign currency generation:** 100% increase, adding to an approximate total of US \$1,200 million/year.
- **Job generation:** it is estimated that close to 30,000 new jobs may be generated, including direct and indirect jobs.
- Private capital investment in CARBOCOL is facilitated.

<sup>1</sup> Corresponds to the net value of sales shared with Intercor.





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# Summary of Basic Figures

<b>NORTH CERREJON</b>		<b>1997</b>	<b>1998</b>	<b>VARIATION</b>
Production	(kTON)	15,417	15,510	1%
Association's Exports	(kTM)	15,386	16,836	9%
Association's Exports	(US\$M)	538	509	-5%
Carbocol's Exports	(kTM)	7,745	8,508	10%
Carbocol's Sales	(FOB US\$M)	269	257	-4%
Capital Investment	(US\$M)	73	44	-39%
Final North Zone Inventory	(kTM)	1,803	1,772	-2%
<b>TOTAL CARBOCOL DEBT</b>	(US\$M)	1,085.2	1,074.2	-1%
Foreign Debt	(US\$M - DIC31)	651	550	-16%
Internal Debt	(US\$M - DIC31)	434	524	21%
<b>SUBSCRIBED AND PAID CAPITAL</b>	(\$M)	86,608	86,608	0%
<b>ROYALTIES PAID BY INTERCOR</b>	(\$M)	32,857	30,256	-8%
<b>TOTAL TAXES PAID BY CARBOCOL</b>	(\$M)	18,894	19,318	2%
CARBOCOL Production		5,154	5,673	10%
Special Contribution		1,701	189	-89%
Industry And Commerce		35	31	-12%
Rent		12,004	13,425	12%
<b>VAT RECOVERY</b>	(\$M)	2,821	4,937	75%

Note: k = Thousand Units  
M = Million Units

# Balance Sheet

December 31

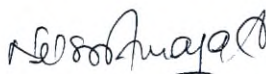
<b>ASSETS</b>	<b>1998</b>	<b>1997</b>
<b>CURRENT ASSETS</b>		
AVAILABLE		
Cash	10,005	7,239
Banks	1,315,693	620,096
Savings accounts	106,096	47,116
Funds	41,432	72,164
Total available	1,473,226	746,615
<b>INVESTMENTS</b>		
Private bonds	514,485	2,563,103
Investment funds	1,155,416	6,989,707
Other investments	27,125,715	22,137,035
Total investments	28,795,616	31,689,845
<b>DEBTORS</b>		
Traded goods	31,591,547	26,237,509
Advance payments delivered	198,211	97,468
Joint operation advance payments	15,241,271	7,918,308
Advance payments for taxes and contributions	21,291,129	14,753,510
Deposits delivered	9,103,257	11,483,617
Claims	127,587	49,049
Credits to employees	266,286	145,500
Other debtors	17,101,367	14,609,832
Bad debts	825,990	825,990
Subtotal debtors	95,746,645	76,120,783
Reserve for bad debts	(825,990)	(825,990)
Total debtors	94,920,655	75,294,793
<b>INVENTORIES</b>		
Goods in stock	28,091,761	31,729,123
Supplies, spare parts, and accessories	24,432,260	25,509,748
Total inventories	52,524,021	57,238,871
<b>DEFERRED</b>		
Expenses paid in advance	61,624	119,820
<b>TOTAL CURRENT ASSETS</b>	<b>177,775,142</b>	<b>165,089,944</b>

<b>LIABILITIES AND EQUITY</b>	<b>1998</b>	<b>1997</b>
<b>CURRENT LIABILITIES</b>		
<b>PUBLIC DEBT</b>		
Internal	0	40,258,248
<b>FINANCIAL OBLIGATIONS</b>		
National banks	44,798,296	56,471,493
Foreign banks	184,194,178	224,038,680
Leasing contracts	8,675,128	5,406,785
Total financial obligations	237,667,602	285,916,958
<b>SUPPLIERS</b>		
National	4,332,109	2,772,085
Foreign	3,942,186	5,978,623
Total suppliers	8,274,295	8,750,708
<b>ACCOUNTS PAYABLE</b>		
Creditors	821,821	3,683,335
Financial expenses payable	11,230,767	9,430,754
Withholdings and stamp tax	355,286	193,276
Other withholdings	2,130	2,094
Taxes, contributions and levies payable	0	189,338
Total accounts payable	12,410,004	13,498,797
<b>OTHER CURRENT LIABILITIES</b>		
<b>LABOR OBLIGATIONS</b>		
Consolidated severances	1,637,328	1,910,837
Vacations and consolidated extra-legal bonuses	2,091,897	373,831
Total labor obligations	3,729,225	2,284,668
<b>ESTIMATED LIABILITIES AND RESERVES</b>		
For costs and expenses	2,964,578	1,152,722
For fiscal obligations	11,602,373	10,125,316
For contingencies	10,846,297	8,982,319
Various reserves	2,423,713	1,939,609
Total estimated liabilities	27,836,961	22,199,966
<b>OTHER LIABILITIES</b>		
Third party collections	8,311,803	10,614,876
<b>TOTAL CURRENT LIABILITIES</b>	<b>298,229,890</b>	<b>383,524,221</b>

# Balance Sheet

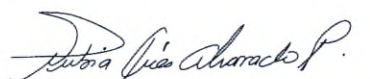
December 31


ASSETS	1998	1997
<b>NON CURRENT ASSETS</b>		
PROPERTY		
Property, plant and equipment	2,310,583,919	2,031,780,836
Accumulated depreciation	(1,657,988,143)	(1,400,913,153)
Reserve	(17,692,031)	(17,608,169)
<b>Total property</b>	<b>634,903,745</b>	<b>613,259,514</b>
INVESTMENTS		
Installments with a social interest	1,041	900
Common stock	10,148	0
Social security bonds	883,962	883,962
<b>Total investments</b>	<b>895,151</b>	<b>884,862</b>
DEBTORS		
Credits to employees	4,594,098	4,419,644
DEFERRED		
Organization and commissioning expenses	1,632,759,294	1,411,276,032
Less accumulated depreciation	(158,878,450)	(119,221,802)
<b>Total organization expenses</b>	<b>1,473,880,844</b>	<b>1,292,054,230</b>
Deferred charges	652,974,361	603,846,384
Less accumulated amortization	(251,791,953)	(213,616,801)
<b>Total deferred charges</b>	<b>401,182,408</b>	<b>390,229,583</b>
<b>Total deferred</b>	<b>1,875,063,252</b>	<b>1,682,283,813</b>
OTHER ASSETS		
Goods delivered to third parties	1,940,796	1,958,625
Goods purchased through leasing	34,180,763	22,109,091
<b>Total other assets</b>	<b>36,121,559</b>	<b>24,067,716</b>
<b>TOTAL NON CURRENT ASSETS</b>	<b>2,551,577,805</b>	<b>2,324,915,549</b>
VALORIZATIONS	80,161,596	80,232,044
<b>TOTAL ASSETS</b>	<b>2,809,514,543</b>	<b>2,570,237,537</b>
DEBTOR MEMORANDUM ACCOUNTS	2,073,639,586	1,942,268,966
MEMORANDUM ACCOUNTS	991,197,972	850,406,362
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>3,064,837,558</b>	<b>2,792,675,328</b>



NELSON RODOLFO AMAYA CORREA  
President

<b>LIABILITIES AND EQUITY</b>	<b>1998</b>	<b>1997</b>
LONG TERM LIABILITIES		
PUBLIC DEBT		
Internal	664,490,628	438,259,706
FINANCIAL OBLIGATIONS		
National banks	125,462,796	26,841,785
Foreign banks	600,809,901	591,522,313
Leasing contracts	28,254,952	21,627,138
Total financial obligations	754,527,649	639,991,236
<b>OTHER LONG TERM LIABILITIES</b>		
ACCOUNTS PAYABLE		
Financial expenses payable	53,872,747	0
LABOR OBLIGATIONS		
Consolidates severances	1,113,621	855,599
ESTIMATED LIABILITIES		
Pensions	3,864,110	1,296,736
BONDS AND SECURITIES		
Bonds mandatorily convertible into shares	675,280,624	675,280,624
<b>TOTAL LONG TERM LIABILITIES</b>	<b>2,153,149,379</b>	<b>1,755,683,901</b>
<b>TOTAL LIABILITIES</b>	<b>2,451,379,269</b>	<b>2,139,208,122</b>
SHAREHOLDERS EQUITY		
Capital stock	86,607,509	86,607,509
Legal reserve	29,140,601	29,140,601
Reserve for purchase of property, plant and equipment	42,587,739	202,735,001
Equity revaluation	247,515,065	192,461,522
Fiscal year's result	(127,877,236)	(160,147,262)
Excess from valuations	80,161,596	80,232,044
<b>TOTAL EQUITY</b>	<b>358,135,274</b>	<b>431,029,415</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,809,514,543</b>	<b>2,570,237,537</b>
CREDITORS MEMORANDUM ACCOUNTS	(991,197,972)	(850,406,362)
MEMORANDUM ACCOUNTS	(2,073,639,586)	(1,942,268,966)
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>(3,064,837,558)</b>	<b>(2,792,675,328)</b>

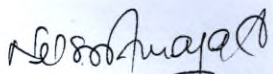
  
 NUBIA INÉS ALVARADO PACHECO  
 CPA T.P. 21182-T

  
 ALVARO BEDOYA CAJIAO  
 Statutory Auditor T.P. 19620-T  
 In representation of Arthur Andersen


# Results Sheet

(In thousand pesos)

	1998	1997*
<b>OPERATIONAL REVENUE</b>		
Commercialized goods	382,267,883	316,654,870
Freight	26,040,028	25,629,107
Insurance	151,019	146,981
Exchange difference	5,913,204	4,444,905
Inflation adjustments	18,102,792	20,593,185
<b>Total operational revenue</b>	<b>432,474,926</b>	<b>367,469,048</b>
<b>SALES COSTS AND PROVISION OF SERVICES</b>		
Commercialized goods	(337,275,656)	(263,288,648)
Inflation adjustments	(22,831,681)	(17,586,698)
<b>Total sales cost</b>	<b>(360,107,337)</b>	<b>(280,875,346)</b>
<b>GROSS PROFITS</b>	<b>72,367,589</b>	<b>86,593,702</b>
<b>OTHER OPERATIONAL REVENUE</b>	<b>9,037,042</b>	<b>6,864,561</b>
<b>OPERATIONAL EXPENSES</b>		
Administration	14,198,493	12,881,839
Sales	35,979,967	30,802,410
Depreciation	7,607,196	9,506,826
Amortization	27,490,462	24,260,681
Reserves	6,583,862	15,624,967
Inflation adjustments	2,313,853	2,399,969
<b>Total operational expenses</b>	<b>94,173,833</b>	<b>95,476,692</b>
<b>OPERATIONAL PROFIT/LOSS</b>	<b>(12,769,202)</b>	<b>(2,018,429)</b>
<b>NON-OPERATIONAL REVENUE</b>		
Financial	8,637,062	12,554,529
Other revenues	15,982,241	7,382,444
Inflation adjustments	753,389	707,083
<b>Total non-operational revenue</b>	<b>25,372,692</b>	<b>20,644,056</b>
<b>NON-OPERATIONAL EXPENSES</b>		
Financial	387,244,831	387,716,320
Other expenditures	13,659,297	20,237,785
Inflation adjustments	5,860,124	6,392,701
<b>Total non-operational expenses</b>	<b>406,764,252</b>	<b>414,346,806</b>
<b>PROFIT/LOSS</b>	<b>(394,160,762)</b>	<b>(395,721,179)</b>
<b>MONETARY CORRECTION</b>	<b>277,879,278</b>	<b>245,692,996</b>
<b>PROFIT (LOSS) BEFORE TAXES</b>	<b>(116,281,484)</b>	<b>(150,028,183)</b>
<b>INCOME TAX RESERVE</b>	<b>11,595,752</b>	<b>10,119,079</b>
<b>NET PROFIT (LOSS)</b>	<b>(127,877,236)</b>	<b>(160,147,262)</b>

  
**NELSON RODOLFO AMAYA CORREA**  
 President

  
**NUBIA INÉS ALVARADO PACHECO**  
 CPA T.P. 21182-T

  
**ALVARO BEDOYA CAJIAO**  
 Statutory Auditor T.P. 19620-T  
 In representation of Arthur Andersen

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## THE CHILDREN OF THE EARTH

Now that the moon lights the way  
¡Come to me, girl!  
¿Do you know where are we from?  
¡We are children of the Earth!  
In the beginning, God  
made winter fall over the Earth:  
Plants appeared  
Birds appeared  
Animals appeared  
Men appeared  
Stars appeared in the sky  
All things appeared in brotherhood.

Poem from the book **Itaka**  
by José Angel Fernández

