5. Chen Transport, a U.S. based company, is considering expanding its operations into a foreign country. The required investment at Time = 0 is $10 million. The firm forecasts total cash inflows of $4 million per year for 2 years, $6 million for the next 2 years, and then a possible terminal value of $8 million. In addition, due to political risk factors, Chen believes that there is a 50% chance that the gross terminal value will be only $2 million and a 50% chance that it will be $8 million. However, the government of the host country will block 20% of all cash flows. Thus, cash flows that can be repatriated are 80% of those projected. Chen's cost of capital is 15%, but it adds one percentage point to all foreign projects to account for exchange rate risk. Under these conditions, what is the project’s NPV?

a. $1.01 million
b. $2.77 million
c. $3.09 million
d. $5.96 million
e. $7.39 million

	0	1	2	3	4	5
Investment	-10					
Cash Flow forecasted		4	4	6	6	5
Cash flow after blocking		3,2	3,2	4,8	4,8	4
kd	1	0,8696	0,7561	0,65752	0,5718	0,4972
CF d	-10	2,7826	2,4197	3,15608	2,7444	1,9887
NPV	-10	-7,2174	-4,7977	-1,6417	1,1028	**3,0915**