



TREPÇA KOSOVO UNDER UNMIK ADMINISTRATION



The Trepca Goal

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Historical Background

Selection Trust established Trepca Mines Ltd. in London in 1927. Regular production started at the Stan Terg mine in 1930 and the lead smelter at Zvecan was commissioned in 1940. After World War II Trepca developed into a significant employer with business units throughout Kosovo, Serbia and Monte Negro. Since the early 1980's Trepca suffered from the lack of reinvestment, repair and maintenance. With the departure of the Albanian workers in 1990 there was a further deterioration of Trepca's business problems.

The arrival of KFOR in June 1999 led to a separation of the North, with a predominantly Serb population, from the rest of Kosovo, and the South, where Albanians are clearly in the majority. This event also separated Trepca. In the North, the mines in the Leposavic area and the lead smelter at Zvecan continued to operate. South of Pristina, at Kizhnica and Artana (Novo Brdo), Albanian workers repossessed the mines, but were unable to restart any production due to lack of supplies, consumables and other materials. At the Stan Terg mine and the Mitrovica Industrial Park (MIP), KFOR intended to continue operations with Serbs and initially disallowed Albanians access to the plants.

UNMIK Regional Administrator signed an agreement with the Albanian Trade Unions on December 22nd, 1999 providing for the return of Albanian workers to the Stan Terg mine and flotation plant.

In August 2000, KFOR forced the closure of operations at the lead smelter in Zvecan for environmental reasons. The levels of pollution were unacceptable. As a consequence, all production at Trepca came to an end. UNMIK representatives signed an agreement with the Serbian workforce regarding financial support: 1000 Serbs would receive a "salary" and up to 2300 Serbs "stipends". This provided for virtually all the Serb employees. It was also agreed to pay 1000 Albanians a "salary". However, according to the records of the Trade Unions, approximately 5000 Albanians, who used to be employed by Trepca, were left out of any form of financial compensation.

At the same time, UNMIK commissioned the ITT consortium with an analysis of Trepca and the preparation of a proposal for future development. After the presentation of the ITT study, UNMIK decided to directly administer Trepca and commissioned the CSA Advisory Team with the management of Trepca. Local and international experts prepared programs and business plans for the re-start of certain operations, including the mines. Since 2001, UNMIK/EU Pillar employs an international Trepca Manager in charge of "Trepca under UNMIK Administration".

Vision Statement

The under explored Trepca Minerals Belt and the very good potential for additional ore resources in the existing mines and their vicinity offer excellent opportunities for a vital and active viable company mining base metal (lead and zinc) ores and providing real jobs. Metallurgical activities, associated with and peripheral to the former primary lead and zinc metal production facilities, form the basis for an industrial company providing real jobs and serving successfully industrial and environmental businesses in the Balkans.

Objectives

There exists no current production activity. The facilities at the various sites are in a dismal state, following 20 years or more of neglect in housekeeping, maintenance, repair, and re-investment. The various former socialistic structures for Trepca created a huge industrial and social complex, which can be divided into three major business areas for immediate future economic development:

1. Mining as a core activity,
2. Metallurgical activities in selected non-primary processing facilities, also considered core activities,
3. Non-core activities, i.e. other opportunities for Trepca assets.

Mining

Traditionally, there exist three mining centres in Kosovo, each one with a flotation plant for processing of run of mine ore to concentrates, the marketable product of a mining company. A total of five mines possess the potential to develop into viable operations:

- In the North,
Municipality of Leposavic: Crnac mine, Belo Brdo mine with Leposavic concentrator;
- In the South,
Municipality of Mitrovica: Stan Terg mine with Tuneli Pare concentrator;
Municipalities of Pristina and Novo Brdo: Artana (Novo Brdo) mine, Hajvalija mine with Kizhnica concentrator.

Metallurgical Activities

The processing of concentrates for the primary production of metals was carried out in the lead smelter and the zinc metallurgy. By-products, such as sulphuric acid, were processed in the chemical plant for the production of fertilizers. The three production and business units noted below comprise peripheral metallurgical facilities which are believed to offer a good potential for viable re-vitalization:

- Battery recycling at the lead smelter facilities in Zvecan, in the North;
- Zinc dust and zinc oxide production at the Mitrovica Industrial Complex (MIP), in the South;
- Aluminium Sulphate production at MIP, in the South.

Non-Core Activities

The large number and wide variety of Trepca's assets offer many business opportunities. The initiation of these potential businesses will require entrepreneurial managers and funds similar to those needed in the development of the core activities.

The list of ongoing projects consists of:

- Operation of UNMIK's Mitrovica Customs Terminal at MIP;
- Sale of scrap, consumables, semi-finished products, finished products;
- Rental of property,
- Trailer factory in Mitrovica,
- Refurbishing of one battery production line at MIP.

Environmental Clean-Up and Management System

Integral for all potential future business activities are environmental considerations in an effort to meet EU Standards. The donor funded clean-up programmes are addressing past failures, but provide information and training for future operations as well. All business projects incorporate modern environmental management systems (EMS).

Factual Basis for the Plan

Decision Process

In July 2002, Trepca management decided to embark on a 're-start of mine productions' program. This decision implied that revitalization of mining must have the top priority. The fundamental justification for the decision has to be seen in the logical chain of primary production activities, i.e. starting with mining, all other activities being down-stream.

The review of the status of Trepca in the summer of 2002 revealed:

- Management administered a static, inactive KCB budget in the order of € 8.5m with no apparent objective, covering social welfare payments to slightly more than 2000 salaried persons (1000 Albanians, 1000 Serbs) and up to 2300 Serbs for stipends, totalling € 5m; € 2.4m for electricity and € 1m for goods and services including international staff;
- The salaried workforce, of which approx. 1200 were associated with mining, could be requested to do productive work, thereby enhancing their capabilities and eventually creating real jobs;
- The EAR had provided € 6.0m for mine safety and asset preservation, of which € 1m was still to be committed. Once this program was completed, then what? There existed no plan for the future.
- UNMIK/EU had commissioned several studies which were carried out since 1999. These studies were frequently based (as necessary) on US or Western European cost structures and unit cost assumptions. In several instances they were not completed, thus distorting conclusions and judgements.
- Reliable and comprehensive database and operating records were not available for any of the potential projects, including mining, therefore preventing any business decision according to Western standards. However, underground inspections revealed promising mineralization in accessible mining stopes.

- Environmental liabilities directly associated with the mining and flotation plants activities were considered within the typical range for regular operations elsewhere in the industry. This followed from studies carried out under the various donor programs.

The well recognized and experienced international team, supported and encouraged by local managers and engineers, concluded from these facts and findings that re-start of limited mine production according to traditional operating practices was desirable for a number of reasons:

- The mining potential still has to be substantiated through reliable operating records and a comprehensive sampling program within an “exploration mining program”;
- Existing and accessible ore reserves allow duration of such exploration-mining program between two and three years at cash break-even. It is expected that the value of the mining assets can be significantly improved during this period.
- The re-start of production requires management to follow UNMIK rules and regulations and implement and adhere to European/international standards. This refers to licensing for exploration and exploitation; permitting for the commissioning and operation of processes, machinery and the use of explosives; health and safety objectives; planning; documentation and reporting.
- As a future mining company, relationships with authorities (UNMIK and EU-Pillar, PISG, KFOR, EAR, KTA) have to be established (starting from zero), import and export possibilities have to be evaluated, transportation facilities with UNMIK railways developed, infrastructure restructured, e.g. power supply from KEK and EPS.
- The implementation of the program may attract investors by eventually providing data according to Western standards for expected clarity and transparency, by demonstrating that mines can be operated in Kosovo and that concentrates be sold to international smelters.
- The implementation of the program would also reveal shortcomings in management capacities, engineering experiences and operating skills.
- Financially, the program would provide an opportunity to gradually reduce KCB contributions to the Trepca budget. The 1200 salaried persons associated with mining, out of a total of 2200 currently on KCB social welfare payments, would eventually be employed in commercially viable jobs.

It was planned to review the potential for metallurgical activities, as soon as the “re-start of limited mine productions” program was on its way.

Financials

In December 2002, Trepca was granted an additional € 1.2m from the 2002 KCB MYR. The funds became available in February 2003. This was the **first time** that Trepca management was granted funds for a **business oriented development**. Since 1999, the management had only administered a static, inactive budget. The allocation for the 2003 KCB totalled € 12.59m; including € 4.93m for capital outlay towards re-start of mine production, raising the total amount for capital outlay so far to € 6.13m. Trepca management had requested in the MYR 2003 additional funds of € 2.029m, of which € 0.929m are needed for salary payments and € 1.1m for working capital. Delays in the program, beyond the control of Trepca, and further delays in the approval process to date, have reduced the required amount for 2003 to € 0.929m just for salary payments in November and December. The funds for working capital of € 1.1m have to be deferred to 2004.

Recent Reviews 2002/2003

To provide credibility and confidence in the Trepca strategy, third party, International experts have been invited to review certain aspects of the work done so far or planned:

1. Ore Resources and Reserves;
2. Protocols, Procedures and Organization for the Geologic Department;
3. Assessment of Trepca Concentrators;
4. Trepca Zinc Plant Visit Report;
5. Trepca Lead Plant Visit Report;
6. Review of the Business Opportunity for Battery Recycling, Zvecan Operation;
7. Review of Zinc Dust and Zinc Oxide Production, MIP;
8. Backfilling Technology for Stan Terg and Belo Brdo Mines, using Flyash from KEK;
9. Expert Advice on Zinc Concentrate Sale Negotiation.

Ore resources and reserves:

1. Adam Wheeler, consulting mining engineer and mine software specialist, Truro, UK
Agzim Muja, consulting geologist

Trepca Resource and Reserve Study:
Crnac Mine, August 2002
Belo Brdo Mine, September 2002
Stan Terg Mine, October 2002
Hajvalija Mine, November 2002
Artana Mine, December 2002
2. Adam Wheeler

Trepca Resource/Reserve Review, February 2003
3. Henrik Thalenhorst, Strathcona Mineral Services Limited, Toronto, Canada

Review of Mineral Reserve Estimates and Comments on the Remaining Exploration Potential Trepca Mines, Kosovo, February 2003
4. Doug Dumka, Strathcona Mineral Services Limited, Toronto, Canada

Protocols, Procedures and Organization for the Geology Department at the Trepca Mines, July 2003
5. Doug Dumka, Strathcona Mineral Services Limited, Toronto, Canada

Report outstanding on September/October visit on implementation of earlier recommendations regarding protocols, sampling programs and organization of geology department

Flotation:

1. Klaus Konigsmann, P. Eng., Retired VP Engineering Noranda, Oakville, Ontario

Assessment of Trepca Concentrators, October 2002

Metallurgy:

1. Outokumpu/Lurgi Metallurgie GmbH, Germany
Trepca Zinc Plant Visit Report, March 2003
2. Outokumpu/Lurgi Metallurgie GmbH, Germany
Trepca Lead Plant Visit Report, March 2003
3. David Haughton, CSA, consulting metallurgist
Review of the Business Opportunity for Recycling Batteries at the Zvecan Operations, July 2003
4. Ludvig Levinsen, consulting metallurgist, former technical manager Larvik Pigment, Norway
Zinc Dust and Zinc Oxide Production Plant, July 2003

Mining:

1. Jochen Hasse, mining engineer, mgvv, Montan- und Industrie Consulting, Germany
Ongoing project on mine backfilling: modern technology for Stan Terg and Belo Brdo using fly ash from KEK

Concentrate Sale:

1. Wolfgang Treder, concentrate trader, Metallicarum International Ltd.
Expert advice on zinc concentrate sale negotiation, December 2002

Strategy

All reviews confirmed, regardless of the perspective and, obviously, with varying intensities, certain promising business aspects of the businesses investigated. Trepca's strategy found therefore support. In fact, it was in many cases considered to be the only realistic and pragmatic option left to suit the specifics of Trepca's position in respect of its geographic location, the current political, social and economic environment, the restructuring and privatization objectives of KTA, the technical status of its plant, equipment and mines, the qualification of its workforce, the expectations of ex-workers and society and, last not least, the lack of funds.

“Develop, in stages, promising business units with limited funds to become operational for at least a minimum number of years (say 2-3). This enables management to explore markets, test competitiveness and gradually establish the business. It leads to real jobs and determines the viability of the project. Incompetent, uncompetitive companies will have to disappear. Developing businesses or successful companies will be attractive for investors. This enhances privatisation.”

The “ Limited funding “shall be sourced from:- 1. KCB, 2. Intelligently integrated donor funding for special projects and 3. Own resources, which are generated through the variety of activities referred to under “Objectives”. However, the decisive initial funding has to be provided by KCB, otherwise it will be extremely difficult, if not impossible, to kick off the process.

Privatisation

The Trepca industrial complex has many individual units, which may present good opportunities for a successful privatisation. Trepca’s strategy addresses this aspect.

Certain legislation, like a new mining law and regulations for investment incentives, will support privatisation efforts.

Trepca’s legal status, not registered by UNMIK but registered under Yugoslav law as Trepca Holding Company DD (RMHK Trepca), needs in depth clarification. This shall not prevent the incorporation of a mining company or other business companies under UNMIK rules and regulations. Benefits from these companies can be assigned to a trust account for distribution to owners, once the ownership issue is settled.

The issue of debts in the order of € 200m, secured (€ +50m) or unsecured, is an important aspect in privatisation.

Achievements and Findings

As of today, progress was made in all three major fields of activities, i.e. mining, metallurgy and non-core activities. It can be stated that the plans, on which initiatives were started, proved to be valid and correct in general, however schedules were far too ambitious and could never be met, not even closely. This will be addressed under “Obstacles and Difficulties”.

Mining

The plans to prepare the mines for a re-start of production were revised in March 2003. The available funds were less than requested and the structure and coding of the plans had to serve the requirements of financial controls.

The physical work comprises:

- rehabilitation of underground workings, e.g. drifts, shafts, raises and stopes,
- installation of equipment, such as pumps and fans, supplied through EAR,
- refurbishing of surface facilities, such as change houses, offices, laboratories and power distribution facilities,
- rehabilitation of concentrators,
- repair of mobile equipment, such as loaders, drilling equipment,
- construction of new facilities, such as access roads, ore bins, explosive storages,
- sampling of mineralised structures,
- surveying of underground openings,
- coordination and implementation of equipment/work to be supplied by EAR, such as pumps, fans, repair of the Shupkovac power sub-station,
- rehabilitation and equipment of a new occupational health check centre at MIP,

- inspections of key infrastructure facilities including Non-Destructive-Testing of all winders.

The planning work consists of:

- preparation of documentation for new exploration and exploitation licenses for each mine as required by the Directorate of Mines and Minerals (DMM), including the necessary authorizations to be obtained from the Min. of Environment.
- preparation of documentation for operating permits (explosives, hoists etc.), to be issued by DMM and, in the case of explosives, also by KFOR,
- restructuring of the technical and commercial relationship with KEK and EPS to ensure a 24 h per day power supply,
- establishing relationships with UNMIK Railway to ensure rail transport of concentrates to destinations outside Kosovo.
- development of an operational backfill system for Stan Terg and Belo Brdo mines, using flyash from KEK,
- preparation of mine safety and mine rescue training,

The physical work has advanced at different speeds in the various mines.

The mines in the North, Crnac and Belo Brdo, were the least damaged mines and, by comparison, easily accessible. Their design capacity was traditionally considered to be 100,000 tonnes per year of ore production. The Belo Brdo mine requires a new backfill system, which is limiting progress at present. The Crnac mine is almost ready for start of production. The supply, storage and handling of explosives is in a much advanced approval process. The concentrator in Leposavic has a refurbished capacity, which can process the planned tonnages. The plant needs to be re-commissioned. The mines in the North and their respective ore bodies have a special feature: they span the Kosovo -Serbia boundary. Their main access and the location of the concentrator in Leposavic define them however as Kosovo mines.

The Stan Terg mine is the main mine of Trepca, operating at 600,000 tonnes per year of ore production for many decades. The depth of the mine, about 800 m, the design of operating levels (from very old fashioned in upper levels to rather modern at lowest levels) and the state of stationary and mobile equipment, combined with the flooding of the lowest level forces re-start plans to be restricted to special areas of the mines, which will allow limited production. The backfill system requires special attention. The concentrator at Prvi Tunel proved to be more damaged than originally considered. Moroccan KFOR left the plant in September.

The ore hoisting and transporting infrastructure at the Artana (Novo Brdo) mine is destroyed and required a new access to the mine and into the mine to be planned, refurbished and constructed. Much of this work is completed and remaining work is progressing well. The mine was designed to produce in the order of 250,000 tonnes per year. The Hajvalija mine is not yet accessible. The mine is partly flooded and, over time, acidic water in combination with limestone as host rock produced CO₂ gas, which forbids entry to the mine. A new main ventilator (through EAR funding) is now installed and the mine will be accessible within a short time for a first underground inspection. The original size of the mine was approx. 100,000 tonnes per year. The concentrator at Kizhnica is ready for production.

The ore-sampling program is ongoing. The internal organisational structure, the methods, the equipment and the procedures are about to be finally implemented. The program itself is considered fundamental for the future of Trepca mines. In the short term, it will allow reliable production planning, in the mid term (2-3 years) it will provide comprehensive data for international acceptable ore resource and reserve assessment and in the long term it will contribute to the viability of the Trepca Mineral Belt. During this period, international

investors will be attracted to investigate the future potential of the mines and the base for their decision is the information on ore resources and reserves.

The initial mine safety and mine rescue training has not started yet. The program will be financed through EAR and is currently in the tendering stage.

Exploration and exploitation licenses for the mines in the North will soon have passed the last official stage and will then be granted, if no further problems develop. It is hoped that the licensing process for the mines in the South will now be accelerated as the procedures are now tested and documentation submitted.

The permitting process to use explosives in the North mines has reached a stage, where the location and the design of the mine surface “Explosive Storage Facility” (ESF) as well as the security requirements have been agreed upon between DMM, KFOR and Trepca. Again, it is hoped that procedures are now sufficiently tested to enable the permitting process to be accelerated.

Technically, the borderlines with KEK and EPS regarding a 24 h per day power supply are settled. The Shupkovac substation requires repair and refurbishment to physically secure the permanent supply. This project is under investigation by EAR. KEK is about to install measuring points at the industrial site in Zvecan. This will then allow supplying Trepca North with electric power for a permanent supply. However, despite numerous efforts, agreements were not reached with KEK and EPS. EPS is the only possible supplier for the Belo Brdo mine. Progress with EPS depends on decisions to be taken by KTA. In the interest of the re-start program to be finalised, the necessity to continuously operate mines and concentrators and, above all, assure the safety for all mineworkers, these agreements must be concluded without any further delay. Otherwise DMM has to interfere and discontinue operations.

The study on backfill alternatives for Trepca mines will be completed within the next few weeks.

Transportation of the concentrates to the customer could be by truck. However, rail transport would be more cost efficient. This requires certain technical repair work, which will be defined jointly with UNMIK Railways. Trepca is keen to test the export of goods by railway. In this context it wishes to ship zinc concentrate, which is stored at MIP and lead dust, which is available at Zvecan to customers outside Kosovo. This would also test the administrative procedures.

The health check centre at MIP is close to commissioning. Six doctors, five nurses and a secretary will be employed.

Financials in ‘000€

KCB Capital Outlay

	2002 approved	2003 approved	Total approved	Plan
Crnac, Belo Brdo, Leposavic	480	1020	1500	1520
Stan Terg, Tuneli Pare	500	1937	2437	2961
Artana, Hajvalija, Kizhnica	220	1573	1573	2048
Health Check and Others	-	400	400	-
TOTAL	1200	4930	6130	6509

Expected regular, commercial jobs late in 2004

Crnac, Belo Brdo, Leposavic	531
Stan Terg, Tuneli Pare	639
Artana, Hajvalija, Kizhnica	<u>440</u>
TOTAL	1610

Expected concentrate production in the first full 12 months of operation (approximate and rounded figures):

	tonnes Zinc conc.	tonnes Lead conc.
Leposavic plant (Belo Brdo, Crnac)	4000	5500
Tuneli Pare plant (Stan Terg)	26700	23400
Kizhnica plant (Artana, Hajvalija)	<u>32000</u>	<u>17000</u>
TOTAL	62700	45900

The zinc content of the zinc concentrate will be about 50%, the lead content of the lead concentrate will range from 69 – 74%, and the silver content in the lead concentrate will range from 900 – 2000 g /t.

Note: The mines will come on stream at different times.

Metallurgy

Following the most recent reviews, Trepca is confident it will be able to successfully develop the metallurgical projects it has focussed on for more than two years.

Aluminium Sulphate production is in a final stage of negotiation. KTA's water division has an annual demand for water purification. Trepca is in contact with KTA's supplier for a subcontract. If successful, then about 45 commercial jobs would be created at MIP and the base for an ongoing business laid, very much in accordance with Trepca's strategy.

The zinc dust and zinc oxide plant at MIP requires funding for repair and refurbishment in the order of € 1m. The plant will meet current international standards and its state of technology is at 85% of what can be expected from the best. Many of competing plants do not meet these technology standards. The plant compound is perfectly suited for privatisation. The products are needed in the tyre manufacturing and the paint industry. The market is controlled by West European companies and demands high qualities. However, there exists a special market in the Balkans and Eastern Europe. Trading companies have an interest to market the products. Again, this project follows Trepca's strategy.

The recycling of batteries appears to be a viable business option. Currently, three technical alternatives are under investigation and capital cost estimates are available this month. The technology and expertise of recycling is available. The plant shall also reprocess lead containing industrial waste. The end products will be lead metal and alloy, slags and plastics. There exists no serious recycling plant with this integrated technology in the Balkans. The environmental benefits of this project go without saying. In Kosovo, old batteries are currently ending up in illegal or municipal household dumps. The availability of old batteries, which can be collected, is not known and must be tested.. However, a plant in Zvecan would attract batteries from Kosovo, Serbia, Macedonia, Bosnia, Albania and perhaps further away. There are indications of interested traders. The collection network needs to be established and will then represent a major asset for the company. Any competitor would have to cope with this existing network. Indications are that the first one into the business will have a decisive advantage. The business has a job potential of 250 persons. The capital cost for this comprehensive project may be as high as € 6.0m, depending on the technical alternative selected.

Expected regular, commercial jobs in 2004/2005

Al-Sulphate production	up to	75
Zn dust and oxide		50
Battery Recycling, incl. security	up to	<u>250</u>
TOTAL		375

Non-Core Activities

As of July 1st, 2002 Trepca operates the custom terminal at MIP. This generates a modest income and has created 26 permanent and 31 temporary commercial jobs. In addition, a contractor built a restaurant, operates it on a rental basis and employs 9 persons. 50 customs agents and bank clerks are working for the customs terminal.

Several requests from UNMIK institutions, government organisations, KTA and private companies or persons have been received for renting Trepca properties. Rental agreements have been reached with some tenants whereby the tenant commits to certain investment for refurbishment and decoration and Trepca grants a “rent grace period” of varying durations. The most prominent case is the KTA headquarter building in Mitrovica North.

Trepca has a variety of materials, industrial waste, products and semi-products, scrap metal and others, which carry a value. These materials and products are being offered for sale through a public tendering procedure whenever possible.

The trailer factory in Mitrovica is being encouraged to develop a more aggressive marketing strategy, however expert guidance is required.

The Trepca Institute in Zvečan has sufficient and competent engineering capacity to compete in a market economy, if adequately structured and organized. Every attempt is made to have the institute bidding on published tenders.

Environmental Clean Up

Initial funding provided through UNMIK in 2000 and early 2001 was aimed at identifying the Trepca environmental conditions and therefore liabilities, which would then lead to the preparation of a prioritised schedule of activities needed to mitigate continuing health and environmental impacts.

The Trepca environmental issues can be consolidated into three general areas as follows:

1. Abandoned and operating Tailings Areas (8 in total).
2. Process residues and wastes sited at the several industrial complexes.
3. Acid mine drainage arising from mine water releases.

Through funding sourced from Donor agencies, significant progress has been accomplished in the past two years to better define the requirements and risks and equally to implement actual remediation work.

Funding obtained from the Dutch, Swedish, Danish governments together with the EAR amounts to some €6m and has enabled the implementation of some 10 major projects all of which will significantly reduce the ongoing health and environmental impacts of the earlier operations. The priority areas are the high metal content industrial wastes at the lead and zinc refineries together with all the tailings areas.

Total estimated funds needed to address all the issues are of the order of € 100m+ and Trepca is constantly working to attract and source additional monies. The whole program is substantial and challenging in all respects.

Qualification of Personnel

A very significant finding of the preparatory work to re-start mine production was the confirmation of the lack of qualification and experience of the workforce in operating and management skills. Intrinsicly integrated is “safety”: mining operation and safety cannot function without each other. A future training program has to address these problems:

- Trepca lacks sufficient numbers of skilled workers to start the training programs needed to increase SAFETY and PRODUCTIVITY at the mines.
- There is a lack of basic facilities and equipment for what will be long-term comprehensive training.
- The present mining equipment and infrastructure necessary for efficient and safe restart of production is aged and damaged.

Social Issues

Ex-Trepca workers were registered by IOM in February 2002. The validity of the registration was never verified. The total number of persons registered was 9445, of which 3908 were Serbs and 5537 Albanians. As a consequence of the forced closure of the lead smelter in Zvecan, UNMIK decided on certain social welfare payments: 1000 Serbs and 1000 Albanians were and still are paid a monthly salary in the order of € 180. In addition up to 2300 Serbs were and are paid a monthly stipend of € 30. This leaves about 4500 Albanians without any pay, whereas today almost all Serbs receive some monthly pay. In addition, Albanians are on average about 50 years old today, Serbs are 10 years younger. Approximately 60% of the salaried workforce works in the mines or concentrators without any form of insurance. The majority of Albanians is either too old or physically unfit to work in mining, an important minority of Serbs as well.

In particular Albanian workers demand the following to end the discrimination:

- Early retirement for over aged miners,
- Health check for all workers and the possibility of a disability pension,
- Stipends for all Albanians, who do not find work and do not qualify for one of the pension schemes,
- Adequate accident insurance.

These demands were recently expressed during a strike/demonstration at Stan Terg mine, which lasted 12 days and was finally settled with the help of the Prime Minister. Promises were made by the Prime Minister on early retirement, stipends for miners at Stan Terg mine and on a one-time payment to the miners at Stan Terg mine.

The lack of financial means forces the desperate workers from remote mining communities and all those who are in similar situations to address their needs whenever an opportunity presents itself. The sale of zinc concentrate at MIP was recently stopped when the workers demanded the receipts from the sale for themselves and they boycotted the loading of the trucks. Ex-workers at the trailer factory demanded the lay-off of those workers who had a paid job for the past three years. These demands and the resolution of these problems necessitate the management to spend considerable time on easing tensions with workers and maintaining good relationships with customers and unions.

The social problems need to be resolved in order to have a chance to implement successfully the development program for Trepca.

Obstacles and Difficulties

*The overriding parameter for a successful new start of some of Trepca's previous activities is the political will to do so. This will is lacking and that affect all tasks that management is faced with.

*There is no policy on Trepca, therefore the management has to coordinate on a daily basis, project by project, with UNMIK, KTA, Government, KFOR and Trade Unions. Coordination

work takes time and as time goes by, decision makers change and the management starts all over again.

*There is no legal status of Trepca. “Trepca RMHK” is registered in Pristina and is a truly Kosovo company, as most of its, now idle, assets are in Kosovo. Trepca under UNMIK Administration is the attempt to create a unit for administration. However it is little more than a pile of assets and liabilities. Managing a non-entity is by definition not easy, if not impossible. There is no legally binding commitment unless KTA management (the Trepca International Team appears to have zero status) signs it. The incorporation of Trepca is therefore a demand from the management.

*There is no secured financing. The lack of an industrial policy requires the management to present its plans on numerous occasions as if a brand new story has to be told. The different sources of funds (KCB, Donors) appear to be uninterested of each other yet harmonization of these funds is a critical task.

*There exist administrative procedures, which result in bureaucratic overload through uninformed decision makers, delays, loss of credibility, recirculating work.

*There exists a large number of unqualified, over aged and physically unfit workers, who in many cases lack experience, skills and competence. The socially acceptable reduction of this workforce through early retirement and health check, and the training of younger workers, technicians, engineers and managers in operational, managerial and safety skills is compulsory, but requires a generally accepted policy.

Summary

1. Trepca management has plans to re-start production in the mines in the second quarter of 2004. The production will be limited, traditional operating practices will be applied and modern safety management systems shall be implemented. The timetable for the implementation of the program is subject to many factors outside the control of the management.
2. Trepca management believes in the excellent mining potential of the “Trepca Minerals Belt”. All efforts in re-starting mine production are also geared at substantiating this perspective which will increase the attractiveness for international investors. A special fund for an exploration drilling program and regional geological investigations would very much support this concept.
3. It is fully understood by international and local management that these efforts are likely to last only for a transitional period of a few years (say 2-3). During this period, investors have to be found, willing to modernize production and its infrastructure.
4. Rehabilitation work on environmental hazards shall (and must) continue with the assistance of international donor funds.
5. Trepca management is keen to generate its own financial resources through activating promising business potentials and the sale of idle assets. These funds are planned to assist in investments (co-funding).
6. Certain metallurgical business units are identified, which could be brought into production with limited funds. These units appear to be competitive, but would have to establish themselves in a market environment with a distinctive entrepreneurial drive.
7. Privatisation is considered more likely to be successful, if the initial viability of selected business units can be demonstrated; thus the strategy of Trepca’s management.
8. The efficiency of the work of Trepca’s management would be substantially improved, if a corporate structure for the entity would be established and administrative

procedures adjusted to a more regular business. Incorporation with a supervisory board and executive managers is the solution.

9. Top executives and legal offices within UNMIK and KTA should seriously address the legal aspects of Trepca with the intention to resolve these issues.
10. A new mining law and an investment incentive scheme would enhance successful privatisation of certain business units.
11. Last and certainly not least, the operational and managerial capabilities in combination with safety attitudes and knowledge of everyone, be it operators, engineers and managers, Albanians or Serbs, have to be much enhanced. This requires several years of on the job training through qualified contractors.