

# **Lead Zinc Mining Sector**

## **INVESTMENT OPPORTUNITIES IN THE REPUBLIC OF MACEDONIA**



**2003**

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## 1. Introduction

The Government of Macedonia (the 'Government') has initiated a program of reform of the enterprise sector, which includes a commitment to privatise twenty-two loss-making enterprises in which the State has significant interest. The Government is offering a number of incentives to potential purchasers to encourage them to invest in these companies. Of these twenty-two loss-making companies, four are mining or smelting businesses. This document provides introductory information regarding Macedonia, its mining industry, where privatisation, by way of liquidation, is either under way or imminent.

The process of privatisation through the sale of assets will be conducted using procedures designed according to international best practices for maximum transparency and competition. The Government, with the assistance of the World Bank, has appointed an advisor (a consortium led by Lion's Bridge) in order to ensure that the procedures underlying international best practices are adhered to.

For further information contact

Liquidation Advisor	
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## 2. The Republic of Macedonia ('Macedonia')



Since gaining independence in 1991, in spite of the difficulties posed by political and social unrest in the region, Macedonia has implemented a reform program designed to develop a free market economy and achieve closer integration with international trading partners. Priority is being placed on economic reform and, in this, the Government has worked closely with both the World Bank and the IMF. Macedonia has started working towards membership of the EU and has recently been granted full membership to the WTO.

The achievements of the ongoing program of economic reform include:

- widespread privatisation of state and socially-owned enterprises;
- regional, European and worldwide trade liberalization; and
- promotion of foreign direct investment (including major foreign capital backing in the banking and insurance industries).

Macedonia took major steps towards integration with the EU with the signing of the Stabilization and Association Agreement in April 2001 and a Free Trade Agreement with the European Free Trade Association ('EFTA') whose implementation starts this year. Goods exported from Macedonia to the EU are now free of any customs duties or quantity limitations. Duties on goods imported from the EU into Macedonia will be progressively reduced to zero by the end of 2010.

Macedonia also has some very important trading partners in the Balkan region. Trade with Slovenia, Serbia and Montenegro, Romania, Croatia, Bulgaria, Turkey, Ukraine and Albania accounted for approximately 35% of total imports and exports in the year 2001. Macedonia has now signed free trade agreements with all of these countries and has begun negotiations with the Russian Federation.

Macedonia's recent entry into the WTO will help the Country's further integration into the world trading system. It will facilitate foreign trade and investment and expand the market for Macedonian goods and services.

In order to attract foreign direct investment (FDI), the Government of has implemented various reforms to encourage investment. Incentives for overseas investors include:

- a relatively low rate of corporate income tax (15%);
- corporate income tax relief, where investors are allowed a tax break of up to 3 years, after which, if the investor decides to invest profit back into the company then an additional 3 years tax break may be granted;
- customs duty exemptions on imports of equipment and other capital assets;
- creation of Free Economic Zones, offering various exemptions from customs duties and income, sales and property taxes.

Macedonia also offers excellent logistical advantages to investors. The country is crossed by two major transport corridors: the E65 which runs east to west from Durres to Varna, and the E75 running north to south from Munich to Thessaloniki.

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### 3. Macedonian mining industry

Mining is one of Macedonia's most important industries. The industry is a major employer and total lead and zinc ore reserves are estimated at approximately 3.2 million tons. The country has significant resources of all the main non-ferrous metals, being lead; zinc; copper and nickel.

The estimated ore reserves of approximately 3.2 million tons are deemed sufficient for the continuous operations of the mines in Macedonia over the next few decades. Three Macedonian mining companies hold 100% of the lead and zinc mining capacity in the country. The mines and their exact location are:

- Rudnici Zletovo mines in Probistip;
- Toranica in Kriva Palanka; and
- Sasa in Makedonska Kamenica.

All the mines are located in the north-eastern part of Macedonia, close to the Bulgarian border.

The total annual lead-zinc ore extraction capacity of Macedonia is 1.8 million tons distributed as follows:

**Table 1: Lead-zinc ore extraction capacity by mine**

Mine	Extraction capacity (tons '000)
Zletovo	600
Sasa	750
Toranica	450
<b>Total extraction capacity</b>	<b>1,800</b>

Although the country's extraction capacity is 1,800 tons, the industry's output has dropped due to the loss of former USSR and Yugoslavian markets. Production will increase with the introduction of equipment designed to comply with recently introduced technical and ecological standards.

The majority (approximately 80%) of Macedonia's mining production is exported to the EU and neighbouring countries. Excellent commercial opportunities exist between Macedonia and Bulgaria, as the latter does not currently have sufficient mineral reserves to meet demand.

The benefits of mining lead and zinc in Macedonia include:

- Low labour costs;
- Highly skilled workforce;
- Strong industrial tradition;

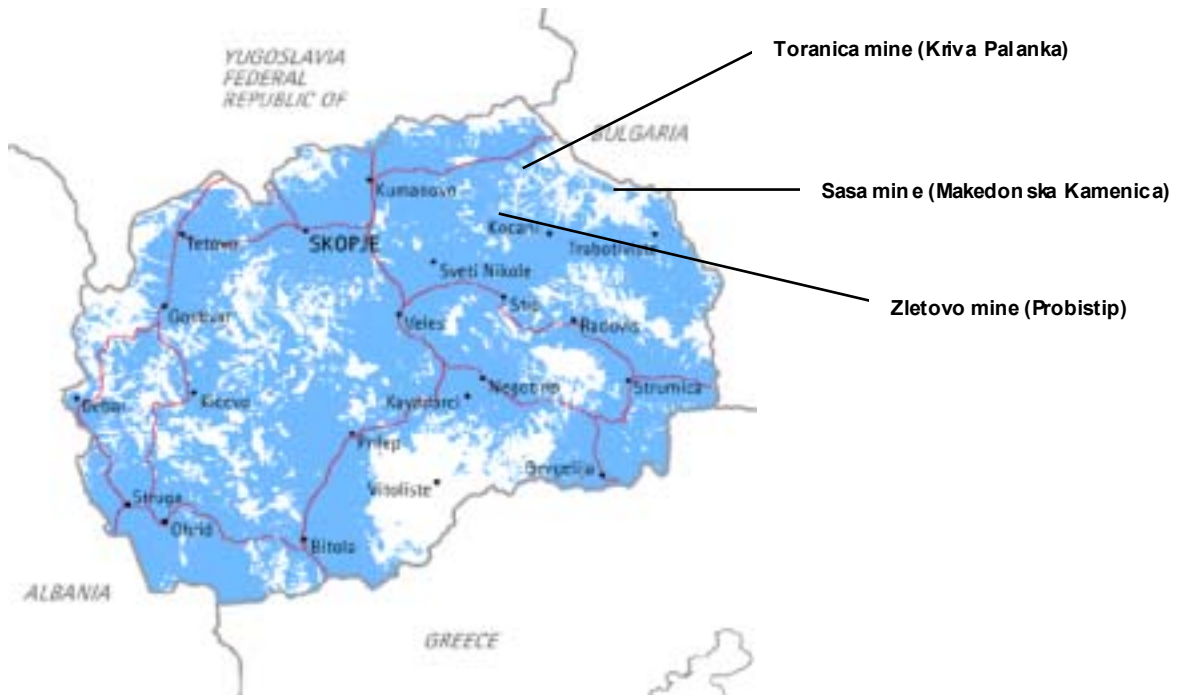
- Stable macroeconomic situation;
- Easy access to export markets in both the EU and other Balkan states; and
- Development of Macedonia's relationship with the EU and the WTO.
- The Macedonian Government will be privatising all three lead-zinc mining companies. The privatisation represents a rare opportunity for an experienced strategic investor to undertake a complete consolidation and rationalisation of the lead-zinc mining industry in Macedonia.

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## 4. The mines

Brief details about each of the three mines, being Rudnici Zletovo, Toranica and Sasa is set out below. Each of the companies is currently in liquidation and so the privatisation will take place by way of a tender for the sale of the assets of each company.

Figure 1: Location mines



### 4.1. Rudnici Zletovo

**Location:** The town of Probistip in north-eastern Macedonia, 110 km from the capital Skopje.

**Core products:** Lead and zinc (Pb+Zn) concentrate.

**Production output:** Zletovo extracts lead and zinc deposits with capacity for production of a maximum 600,000 tpa (dry) milled, but more recently due to the company's situation, this has been approximately 280,000 tpa. Current production is in the region of 180,000 tpa.

**Table 1: Sales of lead and zinc concentrate**

(Tons)	1999	2000	2001
Lead concentrate	7,771	10,062	9,041
Zinc concentrate	4,526	5,980	5,207
<b>Total</b>	<b>12,297</b>	<b>16,042</b>	<b>14,248</b>

**Reserves:** Zletovo mine's current geological ore reserves are set out in the table below, according Macedonian mining ratings.

**Table 2: Rudnici Zletovo ore reserves**

					Partisipance	Quantity of metals	
(Tons)	Wet ore (tons)	Dry ore (tons)	Pb (%)	Zn (%)	%	Pb (t)	Zn(t)
A	658,532	625,605	6.98	3.63	6.27	43.66 7	22.709
B	4,513,724	4,288,038	6.33	2.38	43.00	271.4 33	102.055
C <sub>1</sub>	5,324,059	5,057,856	5.18	1.66	50.73	261.9 97	83.960
A+B+ C <sub>1</sub>	10.496.315	9.971.499	5.79	2.09	100.00	577.0 97	208.724
C <sub>2</sub>	5,396,845	5,127,003	n/a	n/a	n/a	n/a	n/a
D <sub>1</sub>	16,000,000	n/a	n/a	n/a	n/a	n/a	n/a
D <sub>2</sub>	10,000,000	n/a	n/a	n/a	n/a	n/a	n/a

*n/a – figures not currently available. For explanation of categories refer to the Appendix at the end of this document.*

**Employees:** The total number of the company's as at the end of 2001 was 1,525.

**Contact:** For more information regarding Zletovo mines please contact either the Bankruptcy Trustee or the Liquidation Advisor:



Bankruptcy Trustee	Liquidation Advisor
Zoran Denkovski Rudnici Zletovo Mines AD, in Bankruptcy, Jakim Stojkovski br.2 Probistip Macedonia  Tel: +389 32 481 978 Mobile: +389 70 258 208 Fax: +389 32 481 978 E-mail: <a href="mailto:perspekt@freemail.com.mk">perspekt@freemail.com.mk</a>	Simon Beamish or Salman Nissan Lion's Bridge C/o Grant Thornton Consulting Dame Gruev, 14a 1000 Skopje, Macedonia  Tel: +389 (0)2 3214 700 Mob: +389 70 827 744 Fax: +389 (0)2 3214 710 E-mail: <a href="mailto:simon.beamish@lionsbridge.com">simon.beamish@lionsbridge.com</a>

## 4.2. Toranica

**Location:** The town of Kriva Palanka in north-eastern Macedonia, 120km from the capital, Skopje.

**Core products:** Humid lead zinc ore and lead and zinc (Pb+Zn) concentrate.

**Production output:** Toranica's extracts and processes humid lead zinc ore and the production of selective lead, zinc and possibility for production of collective concentrates. Annual capacities of the mining and floatation units are 450,000 tons and 700,000 tons, respectively. Extraction of ore in 2000 was in the region of 190,000 tons.

**Table 3: sales of lead and zinc concentrate**

(Tons)	1998	1999	2000
Lead concentrate	9,965	5,296	6,110
Zinc concentrate	9,646	6,041	1,845
Collective concentrate	605	175	367
Zinc metal	-	-	1,755
<b>Total</b>	<b>20,216</b>	<b>11,511</b>	<b>10,076</b>

**Reserves:** Toranica mine's current geological ore reserves are set out in the table below, according Macedonian mining ratings.

**Table 4: Toranica ore reserves**

(Tons)	Wet ore (tons)	Dry ore (tons)	Pb (%)	Zn (%)
A	594,354	564,635	5.42	3.46
B	6,898,485	6,533,552	4.18	3.23
C <sub>1</sub>	2,998,262	2,848,350	3.95	2.86
C <sub>2</sub>	n/a	n/a	n/a	n/a
D	n/a	n/a	n/a	n/a
<b>Total</b>	<b>10,491,101</b>	<b>9,966,537</b>		

*n/a – figures not currently available. For explanation of categories refer to the Appendix at the end of this document.*

**Employees:** As of 01 January 2002 the Company employed 575 people.

**Contact:** For more information regarding Toranica mines please contact either the Bankruptcy Trustee of the Liquidation Advisor:

Bankruptcy Trustee	Liquidation Advisor
<p>Marinko Sazdovski Toranica Mines in Bankruptcy Partizanska bb Kriv a Palanka Macedonia</p> <p>Tel: +389 2 2430 836 Mobile: +389 70 262</p>	<p>Simon Beamish or Salman Nissan Lion's Bridge C/o Grant Thomson Consulting Dame Gruev, 14a 1000 Skopje, Macedonia</p> <p>Tel: +389 (0)2 3214 700 Mob: +389 70 827 744 Fax: +389 (0)2 3214 710 E-mail: <a href="mailto:simon.beamish@lionsbridge.com">simon.beamish@lionsbridge.com</a></p>

#### 4.3. Sasa

**Location:** The town of Makedonska Kamenitca in eastern Macedonia, 150km from the capital, Skopje.

**Core products:** Lead and zinc (Pb + Zn) concentrate.

**Production output:** Toranica's extracts and processes lead-zinc ore and the produces of selective lead, zinc and collective concentrates. The company's annual mining capacity is approximately 750,000 tons wet ore. Extraction of ore in 2002 for the period January – August was in the region of 170,000 tons, caused because of a longer break periods in the operations.

**Reserves:** Sasa mine's current geological ore reserves are set out in the table below, according Macedonian mining ratings.

**Table 5: Sasa ore reserves**

(Tons)	Ore (wet & dry) (tons)	Pb (%)	Zn (%)
A	6,140,913	5.06	4.33
B	4,678,782	4.89	3.24
C <sub>1</sub>	8,118,102	4.28	2.93
C <sub>2</sub>	29,000,000	n/a	n/a
D	47,500,000	n/a	n/a
<b>Total</b>	<b>96,237,797</b>		

*n/a – figures not currently available. For explanation of categories refer to the Appendix at the end of this document.*

**Table 6: Sale of metals, collective and lead concentrate**

	1997	1998	1999	2000	2001	2002
<b>Lead (t)</b>	9.839	10.659	10.632	8.925	716	
<b>Zinc (t)</b>	5.638	5.257	5.796	5.643	463	
<b>Silver (kg)</b>	7.150	8.588	7.387	9.473	530	
<b>Collective concentrate (t)</b>					23.400	21.677
<b>Lead concentrate (t)</b>		1.170	1.408		4.662	733

**Employees:** As of 31 December 2002 the company employed 1,097 people.

**Contact:** For more information regarding Sasa mines please contact either the Bankruptcy Trustee of the Liquidation Advisor:

<b>Bankruptcy Trustee</b>	<b>Liquidation Advisor</b>
Victor B. Todorov SASA Mines AD, in Bankruptcy 4 Marsal Tito Str. 2304 Makedonska Kamenica Macedonia  Tel: +389 33 432 755 Mobile: +389 70 213 059 Fax: +389 33 432 756	Simon Beamish or Salman Nissan Lion's Bridge C/o Grant Thornton Consulting Dame Gruev, 14a 1000 Skopje, Macedonia  Tel: +389 (0)2 3214 700 Mob: +389 70 827 744 Fax: +389 (0)2 3214 710 E-mail: <a href="mailto:simon.beamish@lionsbridge.com">simon.beamish@lionsbridge.com</a>

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## **5. Environmental matters**

An environmental audit ('EA') of each of the mines and their respective operations has been carried out by the Adam Smith Institute, funded by the Norwegian Government, in accordance with international standards, and the requirements of the Macedonian Ministry of Environment and Physical Planning ('MoEPP').

This EA reports will be issued to all parties that have properly purchased the tender documents. As well as identifying the environmental liabilities on the mining sites, the reports quantify the likely cost of an environmental clean up. It will also serve as the baseline report for a new investor, when applying to the MoEPP for a future operating permit.

Any environmental liabilities at the point of sale are the responsibility of the previous owner (i.e. the State). However, there is no mechanism available for these to be discharged by the State prior to the sale, and therefore the Government of Macedonia wishes to pass the liabilities to the new investor through the privatisation transaction. Future environmental liabilities will be the responsibility of the new owner(s) of the mines.

The MoEPP has been discussing possible funding for the clean up of the sites with the EU and other donor organisations.

## 6. Sale process

Each of the mines will be privatized through a liquidation process by way of a sale of asset packages. Sealed bids will be invited for each company's asset packages.

It should be noted that, as part of the sale process, there will be no future contractual conditions concerning re-employment of workers or future investment in the operations of the companies.

The only criterion for selection of a purchaser will be the price offered for the assets.

Full details of the sales process, brief information about each company and lists of the assets included in each asset package will be set out in an Information Document, which will be available to all interested parties on submission of an expression of interest in the form provided by the Bankruptcy Trustees and payment of EUR 500 (or Macedonian Denar equivalent) once the tender has been formally launched. Requests for Information and Tender Rules Documents should be made 48 hours prior to deadline for the receipt of bids. The deadline for submission of bids will be 12:00, 20 February 2004.

To receive an Information Document, please contact the appropriate Bankruptcy Trustee (see above) or Liquidation Advisor and make the payment to the appropriate bank account:

Company	Bank Details	
	Domestic bank account, amounts in Denar	International bank account, amounts in Euro
<b>Zletovo</b>	Rudnici Zletovo Mines AD, in bankruptcy Probistip <b>Bank:</b> Stopanska Banka AD, Skopje, in bankruptcy <b>Account number:</b> 200000815764463	Rudnici Zletovo Mines AD, in bankruptcy Probistip <b>Bank:</b> Stopanska Banka AD, Skopje, in bankruptcy <b>Account number:</b> 0008233551 <b>SWIFT Code:</b> STOBMK2X
<b>Toranica</b>	Toranica Mines in bankruptcy <b>Bank:</b> Komercijalna Investiciona Banka AD (KIB) Kumanovo <b>Account Number:</b> 510000020056896 <b>Tax Number:</b> Available on request	<i>Available on request</i>
<b>SASA</b>	Sasa Mining in bankruptcy <b>Bank:</b> Komercijalna Banka AD, Skopje <b>Account Number:</b> 300050000040919	Sasa Mining in bankruptcy <b>Bank:</b> Investbarka AD, Skopje <b>Account Number:</b> 4078489 <b>Swift Code:</b> INSBMK22

## Contact details

For further general information please contact visit [www.mpa.org.mk/action\\_plan.htm](http://www.mpa.org.mk/action_plan.htm) or contact:

Liquidation Advisor	
<u>Macedonia</u> Simon Beamish Lion's Bridge C/o Grant Thornton Consulting Dame Gruev, 14a 1000 Skopje, Macedonia  <b>Tel:</b> +389 2 3214 700 <b>Mobile:</b> +389 70827 744 <b>Fax:</b> +389 2 3214 710 <b>Email:</b> <a href="mailto:simon.beamish@lionsbridge.com">simon.beamish@lionsbridge.com</a>	<u>UK</u> Salman Nissan Lion's Bridge   <b>Tel:</b> +44 20 84550833 <b>Mobile:</b> +44 7771 973 076  <b>Email:</b> <a href="mailto:salman.nissan@lionsbridge.com">salman.nissan@lionsbridge.com</a>

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## 7. Purpose and contents of this Document

This document (the 'Document') contains proprietary and confidential information regarding Zletovo Mines AD, Toranica Mines AD and Sasa Mines AD. It has been prepared from information provided by the Bankruptcy Trustees and the companies, solely to enable those selected persons receiving the Document ('Interested Persons') to gain some initial familiarity with the business of each company. The information in this Document has not been verified by the Bankruptcy Trustees, the Companies or by Lion's Bridge and Grant Thornton (together, the 'Liquidation Advisor'). Interested Persons must undertake such investigations as they see fit before entering into any contract.

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This Document (and the information contained herein) does not constitute an offer to sell or an invitation to purchase any of the underlying assets of Zletovo Mines AD, Toranica Mines AD and Sasa Mines AD, nor will it form a part of any investment decision or any decision to enter into any contract of sale.



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## Appendix

### Ore reserve categories

Category	Status	Explanation
A	Proved	Includes sureparts of the ore bodies.
B	Probable	Includes parts and quantities of geological deposits that have been stated during exploration works.
C1	Indicated	Includes parts that have been explored by mining operations and deep drilling.
C2	Indicated	Potential ore masses determined by rare exploration net with open-pit deep and slope drilling and extrapolated parts of ore bodies on the basis of C1.
D	Potential	Other potential ore masses.

For more detailed information on ore reserves, classification and methods of estimating deposits please refer to the Information Document for each of the companies. The reserves certification for each company will be available upon request to those interested parties who submit an expression of interest and purchase the tender documentation for that company.