

**TRIP REPORT
CISVEST INTERNATIONAL, INC. VISIT TO
THE NORTH AMERICAN COAL CORPORATION (NAC)
OPERATING SUBSIDIARIES**

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|---------------------------------|----------------|
| • THE COTEAU PROPERTIES COMPANY | August 1, 1995 |
| • THE FALKIRK MINING COMPANY | August 1, 1995 |
| • THE SABINE MINING COMPANY | August 3, 1995 |
| • THE RED RIVER MINING COMPANY | August 3, 1995 |
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I. INTRODUCTION

On August 1-3, 1995, Stephen Károlyi, Director of Cisvest International & The IDES Group Coal Division (IGCD), visited the four lignite mines of the North American Coal Corporation: Coteau, Falkirk, Sabine and Red River.

The visits were designed to promote Cisvest/IGCD's understanding of NAC's philosophy and operations in the light of the letter of intent signed between NAC and Cisvest on July 28, 1995, and the joint venture the two parties propose to establish by January 1, 1996.

The information contained in this report was obtained during the four mine visits; its purpose is to transmit NAC's guiding philosophy to the Venezuelan project team responsible for the execution of the proposed NAC/Cisvest-IGCD joint venture.

The officers of NAC and its subsidiaries present at each mine visit were:

Coteau Properties Freedom Mine August 1, 1995	Falkirk Mining Falkirk Mine August 1, 1995	Sabine Mining Hallsville Mine August 3, 1995	Red River Mining Oxbow Mine August 3, 1995
H. Dean Jacot E.V.P & C.O.O. NAC	H. Dean Jacot E.V.P & C.O.O. NAC	Marcelo Merino Staff Engineer NAC	Marcelo Merino Staff Engineer NAC
Charles B. Friley V.P. & C.F.O. NAC	Charles B. Friley V.P. & C.F.O. NAC	Glen A. Eckhart Administration Sabine Mining Co.	Peter A. Nielsen Mine Manager Red River Mining
Michael J. Gregory Mgr., Sales and Mktg. NAC	Michael J. Gregory Mgr., Sales and Mktg. NAC	Anthony M. Meyers Operations Manager Sabine Mining Co.	John P. Storrs Chief Engineer Red River Mining
Robert L. Benson President Coteau Mining Co.	Marc M. Schulz Vice President Falkirk Mining Co.	John M. Palfy, P.E. Production Manager Sabine Mining Co.	Timothy Felchle Business Manager Red River Mining
Robert J. Decker Operations Manager Coteau Mining Co.	Douglas L. Darby Engineering Manager Falkirk Mining Co.		Jimmy Isaacs Shift Manager Red River Mining
Kent Neustel, C.M.A. Business Manager Coteau Mining Co.	Tony Lill Production Manager Falkirk Mining Co.		

II. A Brief History of NAC

Founded in 1913 by Mr. Frank Taplin as the Cleveland and Western Coal Company, NAC originated as a sales organization which subsequently expanded into coal production with the acquisition of three mines in 1917 to better serve the energy needs of its customers.

In 1925, the name of the company was changed to the North American Coal Corporation, and large coal reserves in Powhatan Point, Ohio were purchased. The Powhatan Point reserves (named after the famous Indian Chief Powhatan, father of Princess Pocahontas) allowed NAC to operate several surface mines and the largest totally mechanized underground coal mine at the time in the Ohio River Valley, all of which consolidated NAC's participation in the eastern United States coal market.

In 1957, NAC expanded into the western U.S. market with the purchase of the rights to the Dakota Colliery's lignite mines and reserves near Beulah, North Dakota, renamed the Indian Head Mine. Indian Head closed 35 years later, in 1992, after the depletion of its reserves, with reclamation of mined land completed in 1994.

In the 1970's and 1980's, NAC founded three fully owned subsidiary companies and formed one joint venture with the Phillips Coal Company to exploit four surface lignite mines in three states: North Dakota, Texas and Louisiana. Together these four mines form the basis of NAC's present lignite mining operations.

1. Founded in 1972, the Coteau Properties Company operates the Freedom Mine, located northwest of Beulah, North Dakota. The Freedom Mine produces in excess of 15 million tons of lignite per year, which classifies it as one of the ten largest mines in the United States. The equipment used to uncover a 20 foot thick seam consists of two 120 cubic yard draglines and a large truck and shovel operation. The lignite from the Freedom Mine is delivered to four energy conversion facilities:

- **The Great Plains Synfuels Plant:** This is the only commercial scale coal gasification plant in the United States, is located at the Freedom Mine mouth, and is owned by the Dakota Gasification Company, a subsidiary of the Basin Electric Power Cooperative.
- **The 880 mw Antelope Valley Electric Power Station:** Located at the Freedom Mine mouth and owned by the Basin Electric Power Cooperative.
- **The 656 mw Lehman Olds Electric Generating Station:** Located 38 miles from the Freedom Mine and owned by the Basin Electric Power Cooperative.
- **The 177 mw Stanton Power Station:** Also located 38 miles from the Freedom Mine (adjacent to the Lehman Olds Station) and owned by the United Power Association.

2. Founded in 1974, the Falkirk Mining Company, located in Underwood, North Dakota, extracts in excess of 7 million tons of lignite per year using two 110 cubic yard draglines to uncover multiple coal seams totaling approximately 12 feet in thickness. The lignite is trucked and conveyed two miles south to the 1,100 Megawatt Coal Creek Power Station, jointly owned by the Cooperative and United Power Associations (CPA & UPA) and operated by CPA. The electricity produced by the Coal Creek Station is transmitted to the Minneapolis area and feeds the Mid-Continent Area Power Producers' (MAPP) electricity grid covering five States and two Canadian provinces.

3. **Founded in 1981, the Sabine Mining Company**, located in Hallsville, Texas, extracts lignite at a rate exceeding 3.5 million tons per year using two 86 cubic yard draglines to uncover a single five foot seam. The coal is supplied to the Henry W. Pirkey Generating Station, which is located at the Hallsville Mine mouth and is owned and operated by Southwestern Electric Power Company (SWEPCO).
4. **Founded in 1988, the Red River Mining Company** operates the Oxbow Mine located near Coushatta, Louisiana. Jointly owned by NAC and the Phillips Coal Company, Red River operates one 45 cubic yard dragline in combination with a truck and shovel operation to extract in excess of 800 thousand tons of lignite per year, which supplies a portion of the fuel requirements of the 640 Megawatt Dolet Hills Power Plant, owned by the Central Louisiana Electric Power Company (CLEPCO).

The subsidiaries of NAC produced a total of 27.1 million tons of lignite during 1994, up from 26.2 million tons in 1993. Expected production for 1995 is 27.6 million tons. Increased demand for NAC's lignite is the direct result of an efficient, low unit-cost operation which significantly contributes to the electric generating plants' ability to provide low-cost power to households and industry.

III. Permitted Land, Lignite Reserves, Effective Strip Ratios and Lignite Specifications

NAC's permitted land, lignite reserves, effective strip ratios (YTD 1995) and lignite specifications at each of the four mine sites are as follows:

	COTEAU	FALKIRK	SABINE	RED RIVER
Permitted Land:				
Square Miles	78	21	11	2
Acres	50,000	13,440	7,000	1,300
Hectares	20,234	5,440	2,833	526
Reserves (MM tons)	559	310	84	20
Effective strip ratios	6.7	10.0	14.9	11.6
BTUs/lb.	6,800	6,350	6,666	6,900
Ash	7.0%	9.0%	12.5%	9.0%
Sulfur	0.7%	0.6%	1.2%	0.7%
Moisture	37%	38%	35%	32%
Volatile matter	30%	30%	30%	30%

IV. Recent Production History

	COTEAU	FALKIRK	INDIAN HEAD	SABINE	RED RIVER	TOTAL
	(In millions of tons)					
1991	12.0	6.4	0.9	2.8	0.4	22.5
1992	13.7	6.9	0.4	2.8	0.6	24.4
1993	15.0	7.2	0	3.5	0.5	26.2
1994	15.8	7.1	0	3.4	0.8	27.1
1995*	15.5	7.5	0	3.8	0.8	27.6

* Projected

V. NAC's Mission

"We, The North American Coal Corporation companies, will provide exceptional service to our customers and maximize value to our shareholders. We will conduct our business in an ethical, professional, safe and consistently sound manner".

VI. NAC's Vision

"By the year 2000, The North American Coal Corporation will be the largest lignite producer in North America and will produce an additional 10 million tons of non-lignite coal annually. The Company will be a major contributor to enhancing the image of the industry".

VII. NAC's PRINCIPAL GOALS

- 1. Rigorous productivity and cost control to supply lignite to the power companies at the lowest possible cost per million BTUs.**
- 2. Quality-driven motivated work force.**
- 3. Overwhelming attention to operational safety.**
- 4. First class land reclamation and environmental performance.**

VIII. Productivity, Quality and Cost Control

At NAC and its operating subsidiaries, the visitor finds an overwhelming concern with productivity, quality and cost control. It is not merely a question of maximizing profits but a question of survival. The competition in the U.S. among electric power plants to provide the cheapest electricity to the public and to industry is intense. Since fuel accounts for between 25% and 40% of the electric power plants' costs, they are highly sensitive to those costs which in turn forces stiff competition between suppliers of alternative fuels (e.g. coal, oil & gas) to offer the most cost-effective fuel (measured in dollars per million BTUs) to the electric power generating stations, thus capturing and retaining their business.

- A good illustration of this is the Coal Creek Power Station near Falkirk, North Dakota. Coal Creek supplies power to the Mid-Continent Area Power Producers (MAPP) electricity grid, which has an average daily load of 21,000 megawatts. The total available electric power to feed the grid totals 38,400 megawatts, exceeding MAPP's average requirement by 17,400 megawatts. Of the 38,400 megawatts available to MAPP, coal-fired electricity accounts for 22,100 MW, hydro-electric power accounts for 8,200 MW, gas and oil-fired electricity for 4,400 MW and electricity generated from nuclear power for 3,700 MW.

- Naturally, MAPP purchases the cheapest electricity available, thus excluding those power stations whose prices are not low enough to qualify for **(a)** the first 21,000 megawatts purchased to meet MAPP's average daily load and **(b)** X amount of additional power to meet its peak loads.
- This results in permanent competition among the electric power stations fired by different fuels and even between those fired by the same fuel such as coal, to offer MAPP the cheapest electricity, first to guarantee that they will always be on MAPP's "buy list" and second to increase, if physically possible, their share of MAPP's consumption.
- It therefore becomes pertinent to look at the cost picture of any power station to see to what extent fuel costs contribute to their total costs. In the example of the Coal Creek Station, fuel is the single most important cost component, accounting for **38%** of total costs, followed by interest expense (24%), operating costs (19%), depreciation (17%) and taxes (2%).
- Hence the bottom line for the supplier of fuel to the Coal Creek Station (NAC's subsidiary The Falkirk Mining Company) is to provide low cost lignite which must at all times translate into competitively priced power measured in dollars and cents per million BTUs. This competition must and does occur in the context of safe and environmentally sound mining operations.

Thus productivity, quality and costs are rigorously and regularly monitored at all NAC operations by a **work-order system** combined with a broad set of **statistics** which **track past and current performance and project future objectives**.

Work order costs include operator labor, maintenance labor, supplies and major repairs, tires, fuel, ownership (depreciation) and power. Excluded are costs common to all work orders, e.g. office overhead, insurance, environmental compliance, supervisory labor, water trucks, fuel trucks etc.

Statistics are permanently displayed, analyzed and understood by all levels of company employees. They are devised to measure equipment and employee productivity, product quality and unit-cost performance and composition.

Employees are strongly encouraged to contribute individually and collectively to the productivity targets by means of incentive programs which on one hand create a marked positive work environment characterized by open communications and a strong team spirit, and on the other hand favorably affect monthly take-home pay in function of regularly measured productivity gains. One such program ("SOS" or Share Our Savings) is in force at The Red River Mining Company, and is described below.

The following are indicators of equipment & employee productivity:

- ◇ % equipment operated hours versus maintenance work hours
- ◇ % dragline mechanical availability
- ◇ % dragline operated hours versus scheduled hours (production efficiency)
- ◇ % dragline utilization (mechanical availability multiplied by production efficiency)
- ◇ dragline cubic yards per operated hour
- ◇ dragline cubic yards per scheduled hour
- ◇ dragline cubic yards per month & per year
- ◇ dragline cubic yards per cubic yard of bucket
- ◇ truck /shovel cubic yards per truck hour
- ◇ truck /shovel cubic yards per month & year
- ◇ conveyor tons per hour, month & year
- ◇ effective strip ratio (includes re-handling of overburden)
- ◇ % employee overtime

- ◇ % employee attendance
- ◇ dragline cubic yards per employee shift
- ◇ dragline cubic yards per employee day
- ◇ delivered tons per employee shift
- ◇ delivered tons per employee day
- ◇ delivered tons per week, month & year
- ◇ coal recovery percentage

The following are indicators of unit-cost performance and composition:

- ◇ cost per dragline cubic yard
- ◇ cost per P&H 2800 cubic yard
- ◇ cost per P&H 2250 cubic yard
- ◇ cost per scraper cubic yard
- ◇ coal haulage trucks - ton-miles per hour
- ◇ coal haulage trucks - dollar cost per ton-mile
- ◇ % composition - operator labor
- ◇ % composition - maintenance labor
- ◇ % composition - supplies / major repairs
- ◇ % composition - tires
- ◇ % composition - fuel
- ◇ % composition - power
- ◇ % composition - equipment depreciation
- ◇ quantity and distribution of common costs
- ◇ average cost to power stations per million BTUs
- ◇ average cost to power stations per delivered tons
- ◇ average cost to power stations as % of their total costs
- ◇ power plants' average expense per megawatt hour
- ◇ power plants' electricity rates to consumers

IX. Human Resources

The basis for NAC's and its subsidiaries' philosophy concerning human resources is the recognition that people are the company's most important asset; not its computers, its tools or equipment. Specifically, this outlook sets the stage for the Corporation's **personnel related policies, safety standards** and **incentive programs**.

- **Personnel policies:**

NAC and its subsidiaries are committed to treat all employees fairly, approach work with a team spirit, pay competitive wages and benefits, place employees in positions best suited to their abilities, maintain open lines of communication and provide a safe, clean and orderly work environment. Accordingly, fair and consistent assistance, support and guidance are provided to employees in the resolution of their concerns, in such a way as to optimize the Corporation's mission, which is to deliver lignite to its customers in the safest, most environmentally sound and most cost effective manner possible.

- **Safety standards:**

NAC and its subsidiaries are committed to compliance with all Federal, State and Company safety rules, regulations and policies; to provide emergency response capabilities to minimize loss due to fire or injury, to maintain appropriate security; to provide a mechanism to identify and track accidental loss and to establish, through a philosophy of safe production, an environment where employees are self-motivated to be individually responsible for their own safety and efficiency, as well as collectively responsible for their respective teams and the mines in general.

- **Incentive programs:**

The "SOS" program (Share Our Savings) in force at The Red River Mining Company is an example of that aspect of NAC's labor philosophy which encourages employees to continuously strive for improved future performance. SOS meetings are held regularly between employees at all levels, providing an effective forum for sharing ideas which may improve productivity & quality and thus reduce costs. Realized cost reductions are then shared by the Company and its employees based on a pre-established formula whose variables are:

- ◇ The 3-month rolling weighted average cost per ton of lignite shipped;
- ◇ The 3-month rolling average of the quantity of tons of lignite shipped;
- ◇ The 3-month average effective strip ratio.

Examples of how productivity improvements translate into cost reductions include highly coordinated teamwork, use of the right equipment, optimal purchasing methods to obtain the lowest prices from vendors, prevention of personnel injury and equipment damage, optimization of coal recovery, maintenance of haul roads in excellent condition, maintenance of dry pits to avoid operating downtime, moving overburden only once (avoiding rehandling), performance of tasks quickly and correctly the first time, avoiding waste with fuel and lubricants, avoiding excess "walking" of equipment and innovative work schedules. The following excerpt from Red River's SOS manual captures the spirit which will be so vital to the success of our Venezuelan joint venture:

"The cornerstone of our success will continue to be our employees. We will create a work environment that capture's each employee's full potential. We will exhibit a highly participative operating style. The scope of employees' responsibility and authority will continue to be expanded. Each employee will be committed to initiating and implementing ideas to improve safety, productivity and quality. We believe our employees must participate in the achievement of new performance levels, while sharing in the financial gains. Individually, employees will be accountable for, and recognized for, their contributions and performance. Collectively, employees will be financially rewarded for achieving that which is critical to our success ... low cost lignite. The value of work-group cooperation cannot be overstated. Living the team concept is essential. We will recruit, develop, promote and retain employees willing to work as a team. There is a commitment to open communications ... to expand the frequency, content and method of our communications processes. Critical productivity and quality information will be shared with employees to enhance our success and develop a more cohesive work unit."

X. Planning

"We have to know where we are going, how we're going, and how much it's going to cost us. If we don't have a plan, we can't produce the needed results on a continuing basis. The plan must drive the results".

The above quote, taken from the Information Memorandum on The Sabine Mining Company, is the maxim for successful operations. Planning at The Sabine Mining Company has four facets: operational , technical, environmental and maintenance.

- **Operational planning:**

At Sabine, detailed weekly plans are developed by the Planning Group for dragline and load/haul operations, spoil grading and construction, truck/shovel and water management and maintenance. Each Monday morning, Coordinators are responsible for discussing weekly plans with the Operations Planning Manager, the Production Manager, Supervisors and

Operators. Consensus is reached and plans are committed to. Subsequently the Coordinators monitor the plans. On Wednesdays the Coordinators accompany the Long Term Planning Engineer on a drive-by tour of the operations to discuss and ascertain that short-term plans dovetail with long-term plans.

- **Technical planning:**

In general terms, technical planning includes engineering, surveying and drafting to support and guide the operations teams. More specifically, technical planning encompasses:

- ◇ Locating, planning, executing and interpreting the results of geologic drilling.
- ◇ Creating and updating geologic databases and geologic models.
- ◇ Mine plan design, implementation and adjustments.
- ◇ Surveying yardage & tonnage moved.
- ◇ Weekly and monthly projections of overburden removal, load/haul operations, reclamation and construction.
- ◇ Post-mining topography design and regulatory approval.
- ◇ In construction, generating specifications & designs, obtaining regulatory approvals, requesting & evaluating bids, analyzing equipment options, contracting for engineering, equipment replacement and construction projects (roads, ramps, diversions, ponds).

- **Environmental planning:**

The guiding light of environmental planning at the North American Coal Corporation is simple: strict compliance with all Federal and State reclamation laws and regulations. A host of government agencies inspect operations at NAC's subsidiary companies on a weekly basis. As an example, The Sabine Mining Company is inspected by the Railroad Commission of Texas, the Office of Surface Mining, the Texas Natural Resources Conservation Commission and the Texas Air Control Board.

Sabine has received many reclamation and compliance awards from both the the Railroad Commission of Texas, the National Environmental Awards Council, the Texas Mining and Reclamation Association, the Center for Values research, the State of Texas and from the Oklahoma Mining Training Institute. The Coteau Properties Company also stands out in this regard, having received in 1992 the Office of Surface Mining's national award "for an outstanding reclamation program and commitment to sound reclamation practices", as well as having been more recently selected by the Environmental Protection Agency (EPA) "for outstanding achievement in environmental protection and waste minimization". The Falkirk Mining Company, The Coteau Properties Company and The Sabine Mining Company have all on several occasions received the prestigious "Excellence in Surface Mining" award from the the Office of Surface Mining of the Department of the Interior.

The specific functions of the Environmental Teams at NAC's subsidiary companies include reclamation assistance, waste water quality control, permitting services and permit compliance inspections.

- ◇ **Reclamation assistance** means quality control for soil reconstruction, supervision of revegetation contractors, management of reclaimed lands, and reclamation research and development.

- ◇ **Waste water quality control** is self explanatory, but deserves special comment because it is the very first issue which must be taken into account before a mining plan goes into effect (thus building water ponds which control waste water discharge is the first field action before mining can commence). It is also the very last issue which must be properly cleared (with adequate treatment to waste water ponds) before a mine can be considered to have been correctly closed after mineral obsolescence and the completion of land reclamation.
- ◇ **Permitting services** means preparing the documentation required to obtain new mining and environmental permits, a process which can take several years and involve as many as 10 State agencies and 5 Federal regulatory agencies when the land is owned by the Federal government. The documentation includes studies covering water and air quality, fish and wildlife, vegetation, soils, geology, archeology, historical information, pre- and post-mining land use and finally land & lease owner rights and corresponding contracts. Permitting services also entails coordinating that process with the various divisions of the Company whether it be Engineering, Operations or Corporate.
- ◇ **Permit compliance inspections** occur on a weekly basis; the ensuing reports are designed to monitor waste disposal, land reclamation, as well as soil, air and water qualities.

- **Planning & Execution of Maintenance:**

The equipment used in surface mining is diverse, complex, immense and expensive. To illustrate the orders of magnitude, The Sabine Mining Company operates the following major equipment:

- ◇ 2 Bucyrus-Erie draglines, each weighing over 8 million pounds, capable of moving over 4.000 cubic yards per operating hour, and each costing over US\$ 23 million.
- ◇ 2 Huron "Easy Miners", each weighing 240.000 pounds, capable of loading 2.800 tons per hour and each costing about US\$ 1.5 million.
- ◇ 2 lignite haulers, 2 hydraulic shovels and 7 end dump trucks, 10 dozers, 2 scrapers, 3 graders, 2 water trucks, 1 compactor, 1 backhoe, and 1 loader, all with an aggregate cost in excess of US\$20 MM.

Summing up, Sabine has over US\$70 MM invested in major equipment alone. NAC's other operating subsidiaries have similar investments in machinery and equipment.

Given these elevated fixed costs on one hand, and on the other hand the criticality of achieving cost-efficiencies which translate into lower costs per million BTU to the customers, the maintenance teams (planning and equipment) are vital links in NAC's operations, since it is with these people that the responsibility lies for maximizing the operational availability of the equipment, thereby distributing the significant fixed investments in machinery & equipment over the maximum possible lignite tonnage.

The maintenance planners are responsible for coordinating all maintenance activities, costs and fleet operational availabilities in such a way that the operations teams can properly implement mine plans. This entails detailing the type and amount of work to be done on each piece of equipment, securing parts and services and determining the optimum time to shut down and repair equipment. Maintenance planners also prepare annual, quarterly, monthly & weekly projections which are the focus of regular meetings with Technical, Operations and Environmental teams. Maintenance planners finally are responsible for optimizing vendor/supplier relationships and prices, monitoring high cost areas and devising ways to eliminate them, benchmarking all company costs and monitoring the behavior of actual costs as compared with established benchmarks, and evaluating-monitoring equipment improvements to ascertain that expected results are realized.

The maintenance executors coordinate closely with the maintenance planners, and their objectives are to provide consistently well maintained equipment and mine facilities with high operational and mechanical availabilities at controlled costs. This is achieved through high standards of excellence, controlled scheduling and a comprehensive system for tracking costs and equipment histories. The application of preventive maintenance techniques is the key to success. Preventive maintenance at NAC's operations is interestingly illustrated by the lab tests to which used equipment oil is regularly submitted; this determines the oil's exact metallurgical composition and thereby facilitates monitoring which equipment components have been submitted to greatest wear and are due for replacement.

XI. THE SURFACE MINING PROCESS

The sequence of events of the mining process per se (ie. excluding mine permitting and planning) involves five steps:

- ◇ Removing and storing top-soil and sub-soil.
- ◇ Removing the overburden (composed of sandy shale, clay and glacial material) to reach the coal seams.
- ◇ Loading and hauling the coal to coal handling facilities.
- ◇ Replacing the overburden, sub-soil and top-soil.
- ◇ Reclaiming the land to its pre-mine use such that its **productivity after reclamation is equal to or greater than that which existed prior to mining.**

XII. Conclusion

The key elements observed during the visit at all four mine sites were productivity, quality and cost control, in the context of operational safety and environmental performance. In turn, these elements are a direct product of a high quality, well trained and motivated work force.

This visit was an educational process which has only begun. The visit will have been most beneficial to the extent that what has been learned is passed on and comprehended by the persons in Venezuela who will participate in the joint venture between NAC and Cisvest/IGCD. This report is intended to contribute to that end.