

By
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A Top Investment Opportunity

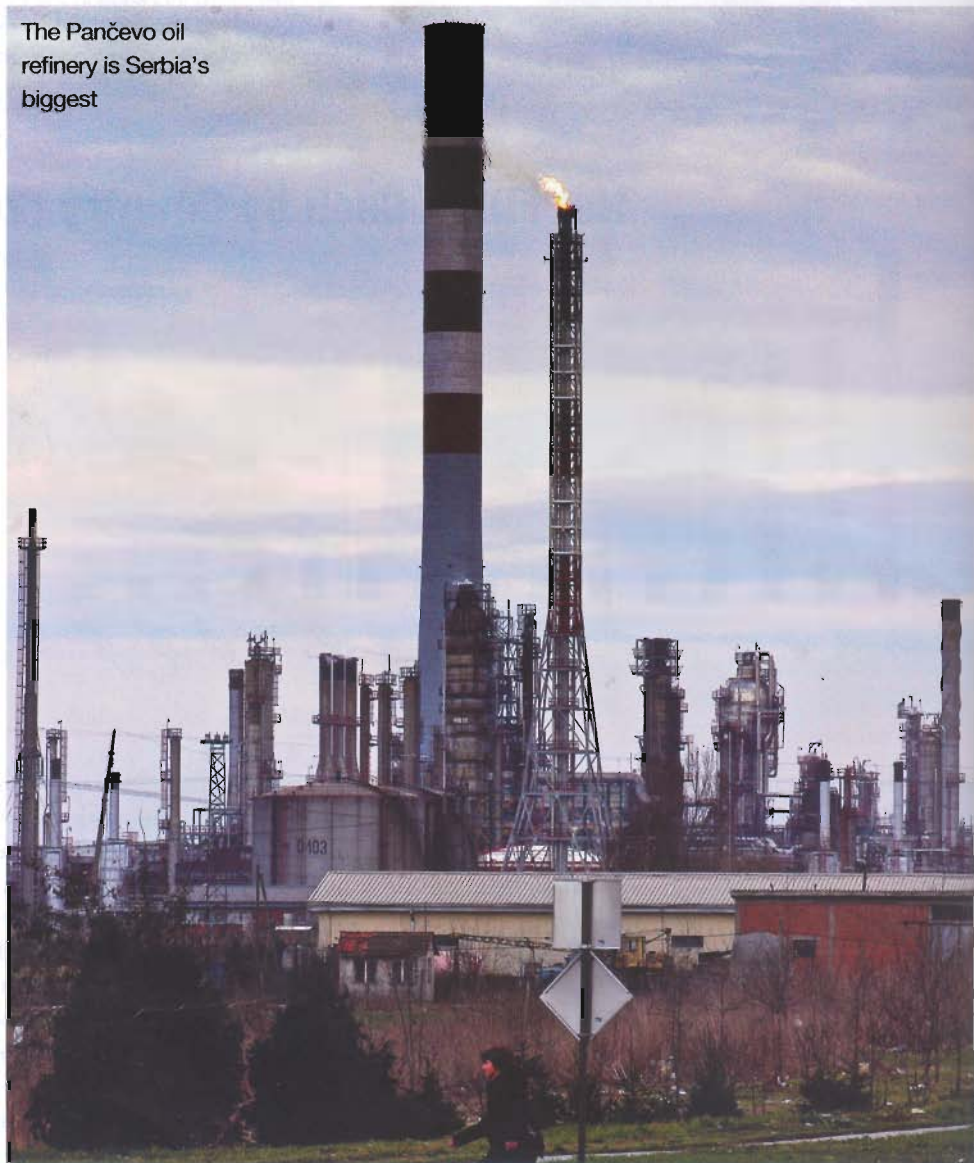
Serbia is one of the centers of Balkan energy generation and one of the most important energy centers in Southeastern Europe. Perhaps inevitably, it is attracting the interest of international companies who are contemplating expanding their business to the region

Serbia's power system is interconnected with all its neighbors due to its central position in the Balkans. Because it is at the crossroads of numerous power transmission lines, Serbia is a very important transit area for power transmission from countries with surpluses (such as Romania, Bulgaria, Bosnia and Herzegovina) to those with significant power shortfalls. Almost all main transmission routes in South-Eastern Europe lead across Serbia; anyone wishing to trade electricity in the region must transport it across the country.

The construction of the South Stream pipeline should bring some 2 billion euro's to Serbia's economy by 2013

If one keeps in mind that Serbia has had no investments in new electricity production capacities in the past 20 years, the country has huge investment possibilities. Serbia's power utility, or EPS, plans to initiate four strategic projects in the next few years. The Serbian government is also expected to announce a tender for the completion of the "Kolubara B" thermal power plant, a 700 megawatts facility, and construction of the third block at the Obrenovac steam power plant "Nikola Tesla B3." It's estimated that the total value of the first project will be about 750 million euro's, while the con-

The Pančevo oil refinery is Serbia's biggest



struction cost of the second one should be approximately 900 million. On the list of priorities is construction of the Gornja Drina hydropower plant, which will be a mutual project of EPS and the Power Utility of the Republic of Srpska, the Serbian entity in Bosnia and Herzegovina. The joint company has been established and the overall value of the project is estimated at 300-400 million euro's. Meanwhile Novi Sad should invest between 120 and 160 million euro's in the construction (and reconstruction) of a combined heat and power plant (CHP). Besides these projects, investments in small hydropower plants (HPPs) are very attractive. Serbia has 900 potential sites for the construction of HPPs, which could reach an overall power output of 500 MW. Until now some 60 HPPs have been built, but only half are operational. In early 2009 the Ministry of Mining and Energy plans to start feasibility studies for 20 construction sites. When technical documentation is

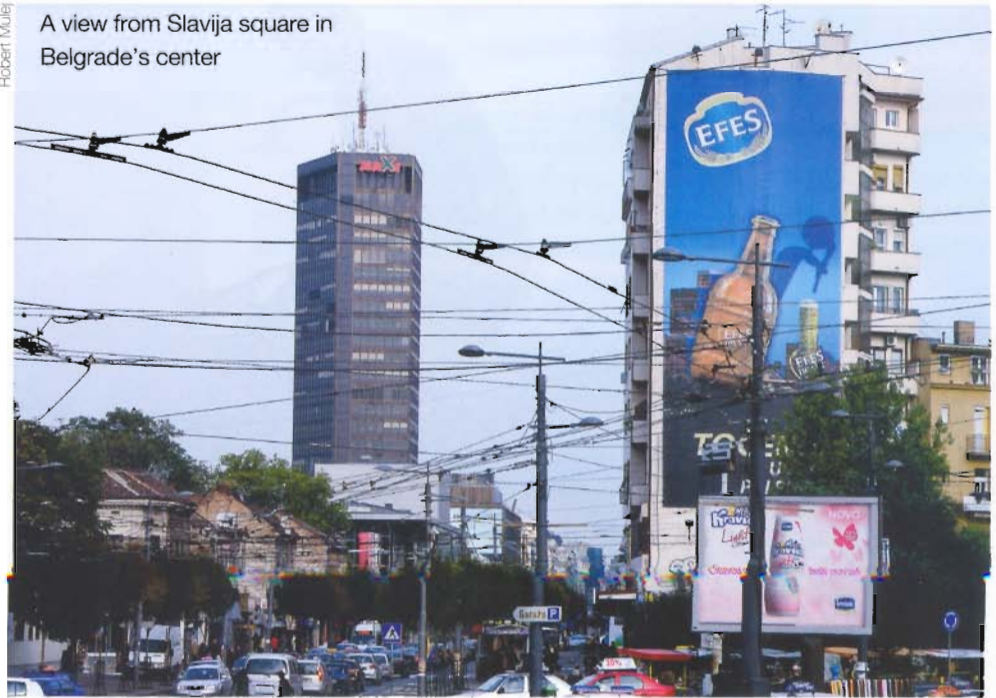
The Serbian Government will soon announce tenders for the completion of the "Kolubara B" thermal power plant and the construction of a third block at the Obrenovac steam power plant "Nikola Tesla B3"

ready, the HPPs will be offered to investors through concession contracts. In accordance with EU regulatory framework, it is expected that the Serbian Government will adopt a bylaw that will introduce incentives for wider usage of renewable resources in electricity production. The promotion of renewable resources will be based on the subsidy of electricity price produced in HPPs.

OIL AND GAS

Under agreements signed in January of this year, Gazprom, the largest Russian company, and Serbia Gas are forming two joint companies. One will build an arm of the South Stream pipeline through Serbian territory with a capacity of at least 10 billion cubic meters annually. (South Stream is a proposed gas pipeline to transport Russian natural gas to Italy. The project would partly replace the planned extension of Blue Stream from Turkey through Bulgaria and Serbia to Hungary and Austria.) Apparently, Serbia's gas transmission network as well as that of

A view from Slavija square in Belgrade's center



Bosnia-Herzegovina's Serbian entity is also to be part of this joint company. The line's precise route within Serbia and its exit points are to be determined in a follow-up agreement between the two governments. Another Russian-Serbian joint company is to expand and modernize Serbia's underground storage site for gas at Banatski Dvor, near Serbia's borders with Hungary and Romania. This agreement also caters to Serbia's ambition to become a "regional hub" for Gazprom gas.

Gazprom and Serbia Gas will share construction expenses in a 51 - 49% ratio, both for the South Stream pipeline and for the storage site. The investment is valued at 1.7 billion euro's for the pipeline alone. The project is expected to inject 2 billion euro's at a minimum into Serbia's economy during the construction period, with a tentative completion date by 2013. Thereafter Serbia expects to earn 200 million euro's annually in transit revenue. ■

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