

PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA,
BELGRADE

ARTICLES OF ASSOCIATION
OF THE PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA,
BELGRADE

Belgrade, January 2014

Pursuant to Article 18, paragraph 1, item 8) and Article 65, paragraph 2 of the Law on Public Enterprises (*Official Gazette of RS* No. 119/12 and Article 41, paragraph 4 of the Decision on Harmonization of Business Operation of Public Enterprise for Generation, Distribution and Trading of Electricity with the Law on Public Enterprises (*Official Gazette of RS* No. 50/13), the Supervisory Board of the Public Enterprise Electric Power Industry of Serbia, at its 2nd meeting held on 30 January 2014, adopted the following

**ARTICLES OF ASSOCIATION
OF THE PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA,
BELGRADE**

1 General Provisions

Article 1

Public Enterprise Electric Power Industry of Serbia, Belgrade, was founded by the Decision on establishing the Public Enterprise for generation, distribution and trading of electricity (*Official Gazette of RS* Nos. 12/05 and 54/10) and entered in the Business Entities Register by the decision of the Business Registers Agency No. BD 80380/2005 of 1 July 2005.

By the Decision on Harmonization of Business Operation of Public Enterprise for Generation, Distribution and Trading of Electricity with the Law on Public Enterprises, as the act on amending the founding document of the Public Enterprise Electric Power Industry of Serbia, Belgrade (Javno preduzeće “Elektroprivreda Srbije”, Beograd) (*Official Gazette of RS* No. 50/13), the founding document (hereinafter: the Articles of Incorporation) was harmonized with the Law on Public Enterprises (hereinafter: the Law).

These Articles of Association regulate the issues of business, management and organization of the Public Enterprise Electric Power Industry of Serbia, Belgrade (hereinafter: the Public Enterprise) as follows: business name and head office, representation, activities of the Public Enterprise and organization of the activities, share capital, the Audit Commission, the bodies of the Public Enterprise, work and development planning, management of subsidiaries, distribution of profits, loss coverage, transparency of the work of the Public Enterprise, by-laws of the Public Enterprise, trade secret and other issues of importance for the work and business operations of the Public Enterprise.

Article 2

The founder of the Public Enterprise is the Republic of Serbia (hereinafter: the Founder).

The Founder's rights shall be exercised by the Government.

Article 3

The Public Enterprise shall have the status of a legal person with rights, obligations and responsibilities stipulated by the Law, the laws regulating the

performance of energy activities and legal status of companies and other regulations, and by the Articles of Incorporation, as well as by these Articles of Association.

The Public Enterprise shall be liable for the assumed obligations with its entire property.

Article 4

On the date of adoption of the Articles of Association, the Public Enterprise is a controlling company with 100 percent share in equity, 13 limited liability companies, established up to the date of adoption of these Articles of Association, for conducting the activities within the scope of the Public Enterprise business operations.

The Public Enterprise, as the controlling company, and the companies established by the Enterprise as the only founder (hereinafter: the subsidiaries), as affiliated parties, together constitute a group of companies within the meaning of the Law (hereinafter: the Group).

The Group shall not have the status of a legal person and shall not participate in legal transactions.

The Public Enterprise may participate in legal transactions on its own behalf, as well as in the name and on behalf of its subsidiaries, in accordance with the law, these Articles of Association, incorporation documents of the subsidiaries and other documents of the Public Enterprise.

Article 5

The Public Enterprise shall have an oval and a round stamp, which include the business name and the head office of the Public Enterprise.

The oval stamp has a horizontal diameter of 40 mm and a vertical diameter of 30 mm, whereas in the center of the stamp there is a sign of JP EPS, and around the sign, the stamp text is written along the oval line. In the outer oval, the business name of the Public Enterprise is written – Javno preduzeće „Elektroprivreda Srbije“ (Public Enterprise Electric Power Industry of Serbia). The word Beograd (Belgrade) is entered at the bottom of the stamp.

The round stamp has a diameter of 20 mm and the same text inscribed as in the oval stamp.

The stamp text shall be written in Serbian language, Cyrillic alphabet.

The use and handling of stamp shall be regulated by a by-law or document passed by the Managing Director.

Article 6

The Public Enterprise has its logo with signs that symbolize the activities of the Public Enterprise and a seal.

Appearance of the logo is determined by the documents which establish the graphical standards of visual presentation of the Public Enterprise, whereas the shape, size and appearance of the logo and its use shall be regulated by the by-law or document passed by the Managing Director.

The Public Enterprise has a receiving and a mailing seal that are rectangular in shape, length 62 mm, width 25 mm, and in addition to the business name and the head office of Public Enterprise, include: the number and date of mailing, when speaking of mailing seal, i.e.: number, date, label of the organizational unit, number of attachments and value, when speaking of receiving seal.

Use and handling of seals shall be governed by the by-law or document passed by the Managing Director.

Article 7

Business letters and other documents of the Public Enterprise sent to third parties shall contain information as stipulated by the law.

2 Business Name and Head Office

Article 8

The business name of the Public Enterprise is: Javno preduzeće „Elektroprivreda Srbije“, Beograd (Public Enterprise Electric Power Industry of Serbia, Belgrade).

The abbreviated business name of the Public Enterprise is: JP EPS, Beograd (PE EPS, Belgrade).

Translation of the business name in English is: Public Enterprise Electric Power Industry of Serbia, Belgrade.

Article 9

The head office of the Public Enterprise is in Belgrade:

The address of the head office of the Public Enterprise is: Carice Milice 2

3 Representation

Article 10

The Public Enterprise shall be represented, in business operations in the country and in foreign trade, by the Managing Director, without limitation.

In addition to the Managing Director, as a legal representative, the Public Enterprise may be represented by persons appointed by a special by-law or document, in accordance with the law.

The document referred to in paragraph 2 of this Article shall particularly define the extent and limits of the authorities and limitations in representing the Public Enterprise and authorities for granting power of attorney.

The representatives of the Public Enterprise shall represent the Public Enterprise in accordance with limitations established by the law, these Articles of Association and the document on appointing the representatives.

Article 11

When the incorporation document of a subsidiary provides that in some legal affairs and actions that subsidiary will be represented by the Public Enterprise, the Managing Director shall perform the function of the representative.

The Managing Director may, within his/her authority, give another person a written power of attorney for representation.

Article 12

The Managing Director may, with the consent of the Supervisory Board, give a procuration for representing the Public Enterprise. Type of procuration and authority of the procurator shall be determined by the decision on granting procuration in accordance with the law.

4 Activities of the Public Enterprise and Organization of the Activities

Article 13

The main activity of the Public Enterprise is energy activity: electricity supply - business activity code 35.14 - trade of electricity.

In addition to the main activity, the Public Enterprise also conducts the following activities:

- 1) electricity generation and electricity and heat generation in a combined process;
- 2) lignite mining;
- 3) electricity distribution and distribution system management;
- 4) business entity management;
- 5) cable telecommunications.

In accordance with the law governing the energy sector, the Public Enterprise may also perform the activity of public supply of electricity to customers in the territory of the Republic of Serbia (hereinafter: the activity of public supply).

The activities referred to in paragraphs 1 to 3 of this Article constitute the subject of business operations of the Public Enterprise, and the Public Enterprise may perform these activities directly or through its subsidiaries, except the activity of business entity management (hereinafter: subsidiary management), which is directly performed by the Public Enterprise.

In conducting the activity of subsidiary management, the Public Enterprise particularly conducts strategic and organizational planning and monitors and controls daily work and business operations of its subsidiaries, manages investments, research and development and takes decisions in accordance with these Articles of Association and incorporation documents of the subsidiary companies.

The Public Enterprise may also perform other activities for its subsidiaries related to accounting and bookkeeping services, financial planning services and other office administrative services, as well as the services of business support to subsidiaries, particularly the services related to information technologies, legal affairs, human resources management, environmental protection, procurements, control of business processes, communications and public relations and other activities.

The Public Enterprise may also pursue other activities in accordance with the law and regulations governing the conditions of their performance and with these Articles of Association.

The Public Enterprise carries out foreign trade activities within the framework of its activities in accordance with the law.

Article 14

In performing the activities of electricity distribution and distribution system management through a subsidiary company, the Public Enterprise ensures the subsidiary's independence, in accordance with the law governing the energy sector, in particular the independence with regard to the management of that subsidiary, independence in work and current business operations, also including adoption of decisions concerning the construction or improvement of distribution network if these are within the approved funding established by the plans and programs of work and development.

Article 15

The Public Enterprise may also perform other activities in accordance with the law and other regulations governing the conditions of their performance, and energy activities of general interest, pursuant to the obligations set forth by the regulations

governing the performance of activities defined by the law as the activities of general interest.

In providing the conditions for a reliable, regular and secure supply of electricity to customers, the Public Enterprise plans to engage and manage the operation of generation facilities, and provides coordinated performance and development of the activities of electricity generation and coal production, electricity distribution and distribution system management, as well as electricity supply, i.e. trade of electricity, compliance of the work and development plans with economic-financial operations of the Group, on a unique basis in accordance with the law, with the Articles of Incorporation and these Articles of Association.

In carrying out the activity of electricity trade, as the energy activity of electricity supply, the Public Enterprise is required to comply with the conditions specified in the law regulating the energy sector and other regulations governing the conditions of supply to customers.

Article 16

The fundamentals of organizing and coordinating the work of the Group in a manner that ensures an efficient and economical performance of activities, successful operation of the Public Enterprise and its subsidiaries, rational and practical arranging and functioning of the relationships with subsidiaries are all determined by a by-law of the Public Enterprise, which regulates the basics of organizing, as well as other by-laws and documents in accordance with these Articles of Association, on the basis of organization, management and conduct of activities defined by the incorporation documents of the subsidiaries.

Article 17

The Public Enterprise may establish subsidiary companies, in accordance with the Law, the laws governing legal status of companies, conditions of conducting energy activities, as well as the activities of general interest and other activities, and also in compliance with the Articles of Incorporation and these Articles of Association.

The incorporation document of the subsidiary referred to in paragraph 1 of this Article, in addition to the issues regulated by the law, shall also regulate the matters related to the work and business operations of the subsidiary, particularly concerning the following:

- 1) activities and tasks carried out in the subsidiary;
- 2) property transferred to the subsidiary for conducting the activity and the conditions and manner of disposing of that property, including the property that cannot be alienated;
- 3) harmonization of operating plans and programs of the subsidiary with the work and development plans and programs of the Public Enterprise;
- 4) conditions and method for the subsidiary's borrowings;
- 5) rights and obligations of the Public Enterprise, as a controlling company, towards the subsidiary in respect of implementing the work and development plans and programs;
- 6) way of achieving technical and technological connectivity and coordination of work in the conduct of activities;
- 7) participation of the Public Enterprise in legal transactions in its own name, and on behalf of its subsidiary or in the name and on behalf of its subsidiary;
- 8) economic and financial relations between the Public Enterprise and the subsidiaries;

- 9) distribution of profits and coverage of losses;
- 10) measures to be taken in case of a disruption in the business operations of a subsidiary;
- 11) management of a subsidiary.

Article 18

The Public Enterprise may, independently or together with another domestic or foreign entities, establish companies in the Republic of Serbia, or another state, for conducting energy and other activities, as well as invest capital in other domestic and foreign legal entities, in accordance with the Law, regulations governing the legal status of companies, public-private partnership, performance of energy and other activities, protection of competition, as well as in accordance with the Articles of Incorporation and these Articles of Association, with the Founder's consent.

With the Founder's consent, the Public Enterprise may invest capital in other domestic and foreign entities when it considers it in the interest of the Public Enterprise, provided that this will not jeopardize performance of the Public Enterprise's main activity and successful business operations of the Public Enterprise and its subsidiaries.

The Public Enterprise may establish branches as separate organizational units, through which it will conduct the activity in the country and branches or representative offices abroad, in compliance with the law, the Articles of Incorporation and these Articles of Association.

Article 19

According to the law, the Articles of Incorporation, these Articles of Associations and incorporation documents of the subsidiary companies, within the management of these companies, the Public Enterprise shall in particular:

- 1) establish a unique base for the preparation and coordination of work and development plans and annual operations programs of the Public Enterprise and subsidiaries and pass the guidelines for ensuring compliance;
- 2) determine the extent and manner of coordinated actions and exercising the rights and obligations in the implementation of work and development plans and annual operations programs, and control the execution of these plans, primarily in the areas of: implementation of the plans for power generation and coal mining, investment projects, investment and current maintenance of the facilities, procurement procedures, environmental protection, human resources management, employment, wages and other employees' rights, and other activities determined by the plans;
- 3) establish the formation criteria for transfer prices of electricity and coal for thermal power plants and determine such transfer prices as prices for accounting the effects of transactions between the Public Enterprise and subsidiaries, as well as among the subsidiaries;
- 4) conduct internal audit in accordance with regulations and the control of business processes;
- 5) establish uniform accounting policies and accounting assessment rules and monitor their implementation;
- 6) provide a uniform organization of the accounting system, bookkeeping, preparation and presentation of financial statements and requirements for preparing consolidated financial statements;
- 7) provide uniformity, or compatibility of information and communication systems for managing business processes and keeping records;

- 8) take measures for harmonized implementation of regulations, by-laws and other documents of the Public Enterprise and implementation of the decisions of the Public Enterprise, and measures to achieve necessary cooperation on matters that require uniform treatment;
- 9) ensure compliance of integrity plans, in accordance with the anti-corruption regulations;
- 10) ensure consistent handling of requests for access to information of public interest and protection of personal data, as well as in informing the general public.

In carrying out the activities referred to in paragraph 1 of this Article, the Public Enterprise adopts by-laws and documents which are directly implemented in the Public Enterprise and subsidiaries, and is authorized to provide to its subsidiaries the mandatory instructions, orders, guidelines and explanations on the manner of conduct in order to meet the obligations pursuant to regulations, by-laws and other documents required to achieve necessary level of efficiency and consistency of work, reduce operating costs, increase productivity and achieve other positive effects in performing the activities and operations within the Group.

Mandatory instructions, orders, guidelines and explanations on the manner of conduct in terms of paragraph 2 of this Article, are typically given by the Managing Director of the Public Enterprise, whereas they can also be given by the executive directors within the scope of operations they manage.

Mandatory instructions, orders and guidelines and explanations on the manner of conduct are binding for the directors and employees of the subsidiaries, which are required to execute the instructions, orders and guidelines in such a manner to achieve protection of the Group's interests.

Article 20

Management of subsidiary companies shall be more closely regulated by the by-laws and other documents of the Public Enterprise in a manner that provides for establishment and implementation of control functions of special interest for conducting a uniform development policy within the Group, managing the operations on a unified basis, production on the least-cost principles and achieving strategic interests of the Group.

The by-law or document referred to in paragraph 1 of this Article shall be directly implemented in the subsidiaries, if so provided by the by-law or other document.

Article 21

Relations between the Public Enterprise and its subsidiaries, as well as among the subsidiaries, may be regulated by a contract pursuant to the law, these Articles of Association, incorporation document of the subsidiary and by-laws and other documents of the Public Enterprise.

Article 22

In case of disruptions in operations of a subsidiary, which jeopardize smooth functioning of the Public Enterprise, the competent body of the Public Enterprise shall take measures to ensure smooth functioning and performance of activities in accordance with the Articles of Incorporation of that subsidiary.

The Managing Director is required to inform the Founder, without delay, about the occurrence of a disruption.

5 Share Capital

Article 23

The total registered share capital of the Public Enterprise (hereinafter referred to as: the share capital), on 31 December 2004 amounted to RSD 364,575,651,147.46 (in words: three hundred sixty-four billion five hundred seventy-five million six hundred fifty-one thousand one hundred forty seven and 46/100 dinars), namely: RSD 360,365,896,147.77 (in words: three hundred sixty billion three hundred sixty-five million eight hundred ninety-six thousand one hundred forty seven and 77/100 dinars), non-cash and RSD 4,209,754,999.69 cash (four billion two hundred nine million seven hundred fifty-four thousand nine hundred ninety-nine and 69/100 dinars) cash.

The share capital is fully paid-in and entered.

The share capital referred to in paragraph 1 of this Article is a single share of the Founder, as the only member with the 100 percent share in the equity of the Public Enterprise.

6 Audit Commission

Article 24

The Public Enterprise has an Audit Commission, which is appointed by the Supervisory Board.

The Audit Commission consists of three members, whereas the Managing Director and executive directors cannot be the Commission's members.

The Audit Commission shall:

- 1) prepare, propose and verify the implementation of accounting policies and risk management policies;
- 2) examine the application of accounting standards when preparing financial statements and evaluate the content of financial statements;
- 3) examine whether the conditions for preparing consolidated financial statements are met;
- 4) conduct the procedure for election of the auditor of the Public Enterprise and propose an auditor candidate to the Supervisory Board;
- 5) perform other duties entrusted to it by the Supervisory Board.

The Audit Commission carries out the duties referred to in paragraph 3 of this Article at the Group level.

The Audit Commission shall decide by a majority vote of the total number of members.

Method of work of the Audit Commission shall be specified in more detail by a decision of the Supervisory Board.

Article 25

The chairman and members of the Audit Commission shall be appointed at the proposal of the Managing Director for a period of four years.

A person who is a chartered auditor, or a person who has adequate knowledge and experience in finance and accounting, may be elected for the chairman or a member of the Audit Commission, in accordance with the law governing the audit.

The chairman or a member of the Audit Commission may not be a person who is engaged or has been engaged in auditing the financial statements of the Public Enterprise and its subsidiaries in the previous two years before the appointment.

Article 26

The Audit Commission prepares and submits to the Supervisory Board the reports on matters referred to in Article 24 of these Articles of Association, at least once a year.

Upon a special request of the Supervisory Board, the Audit Commission shall be required to submit a report within the time frame indicated in the Supervisory Board's request.

The Audit Commission shall submit to the Managing Director, in a timely manner, the reports related to proposals for implementing the accounting standards and financial reporting standards, and other proposals in connection with preparation of financial statements, or consolidated financial statements.

The reports of the Audit Commission shall be submitted to the Managing Director who is entitled to comment on the proposals of the Audit Commission.

7 The Bodies of the Public Enterprise

Article 27

The management in the Public Enterprise is organized as a two-tier structure.

The bodies of the Public Enterprise are: the Supervisory Board, the Executive Board, and the Managing Director.

Supervisory Board

Article 28

The Supervisory Board consists of five members appointed by the Founder, one of whom is a member of the employees and one has to be an independent member of the Supervisory Board of the Public Enterprise, in accordance with the Law.

The member of the Supervisory Board from among the employees shall be appointed on the proposal of the Managing Director.

The term of office of the president and members of the Supervisory Board shall be four years.

Article 29

The term of office of the president and members of the Supervisory Board shall cease upon expiry of the period for which they have appointed, by resignation or dismissal, in accordance with the Law.

If the number of the Supervisory Board members is reduced due to cessation of the term of office of a Supervisory Board member, the president or the member of the Supervisory Board, who is to be appointed instead of the person whose term of office has terminated, shall be designated for the period until the expiration of the term of office of the Supervisory Board in which he/she is a president or member.

Article 30

The Supervisory Board, with the consent of the Founder, shall:

- 1) adopt long-term and medium-term work and development plans of the Public Enterprise and annual operations program of the Public Enterprise;

- 2) determine financial statements of the Public Enterprise and consolidated financial statements, in accordance with the Law and the law governing the accounting;
- 3) take decision on the distribution of profits, i.e. method of covering the loss of the Public Enterprise;
- 4) adopts the Articles of Association;
- 5) decide on the establishment, cessation, status changes and change of legal form of the subsidiaries;
- 6) decide on the status changes of the Public Enterprise;
- 7) decide on the establishment and status changes of other legal entities;
- 8) decide on investing the capital of the Public Enterprise;
- 9) decide on increase and reduction of the share capital of the Public Enterprise;
- 10) adopt the by-law or document on the capital assessment and presenting the capital in shares-equities, as well as the program and decision on ownership transformation;
- 11) decide on the disposal of assets (acquisition and alienation) that have been transferred to the ownership of the Public Enterprise, whose value is higher than the amount determined by the annual operations program, and which are directly used in conducting the activities of general interest, established by the Articles of Incorporation;
- 12) decide on granting the guarantees, sureties, securities, pledges and other financial security instruments for jobs falling out of the scope of the activities of general interest;
- 13) decide on the change of activity (conducting other activities, except those for which the Public Enterprise is established), as well as the change of business name and head office of the Public Enterprise, and
- 14) decide on other matters which are to be adopted with the Founder's consent, as provided by the law and the Founder's document.

The Supervisory Board shall independently:

- 1) determine the business strategy and business objectives of the Public Enterprise and the Group and ensure their implementation, and adopt business policy documents that are directly applied in the Public Enterprise and subsidiaries;
- 2) ensure the implementation of long-term and medium-term work and development plans and the annual operations program of the Public Enterprise, and approve quarterly and other reports on the level of implementation of the annual operations program and consolidated annual operations program;
- 3) propose to the Founder to take decision on changing the legal form and amending the Articles of Incorporation of the Public Enterprise;
- 4) decide on the adoption of the report on regular annual and special inventory of assets and liabilities of the Public Enterprise;
- 5) establish, approve and monitor the accounting, internal control, financial reports and risk management policy, and adopt the by-law or document on accounting, and determine accounting policies and risk management policies;

- 6) elect the auditor of the Public Enterprise and its subsidiaries, decide on the adoption of the auditor's report, and take measures to eliminate irregularities established in the audit report;
- 7) decide on establishment and dissolution of the branch of the Public Enterprise and appoint the representative of the branch;
- 8) supervise the work of the Managing Director and executive directors, or the Executive Board and the directors of the subsidiaries;
- 9) perform internal supervision of the operations of the Public Enterprise;
- 10) decide on the acquisition, alienation or encumbrance of property, creation of security on the assets of the Public Enterprise, providing surety and guarantee in the amount determined by the annual operations program as the value to be the subject of decision-making by the Supervisory Board;
- 11) give prior consent to the Managing Director for undertaking activities or actions in accordance with the law, the Articles of Incorporation, these Articles of Association and the Founder's decision, and in particular, for entering into contracts and taking other legal actions by which the shares and stocks owned by the Public Enterprise in other entities are alienated and encumbered in the amount determined by the annual operations program as the value to be the subject of decision-making by the Supervisory Board;
- 12) decide on the Public Enterprise's borrowings in the amount determined by the annual operations program as the value to be the subject of decision-making by the Supervisory Board;
- 13) appoint other representatives of the Public Enterprise and establish the scope of their powers of representation;
- 14) appoint or dismiss the executive directors, on the proposal of the Managing Director;
- 15) conclude the employment contract with the Managing Director on a permanent basis, i.e. employment contracts with the executive directors ;
- 16) appoint the members of the Audit Commission;:
- 17) designate a member of the Supervisory Board who will participate in the Commission for appointment of the Managing Director.
- 18) make a decision on approving the Managing Director's by-law or document of granting or revoking a procuration;
- 19) decide on other matters within the scope of duties of the Supervisory Board in accordance with the regulations governing the legal status of companies.

The Supervisory Board shall decide in the capacity of the assembly of the subsidiaries on dissolution of subsidiaries, changes of incorporation documents, status changes and changes of legal form of those subsidiaries, in terms of paragraph 1, item 5) of this Article, as well as on electing the auditor of the subsidiaries under paragraph 2, item 6).

A by-law or document which is to be approved by the Founder shall be considered adopted on the date of the Founder's consent.

The Founder shall give its prior consent to the by-law or document on investing the capital referred to in paragraph 1, item 8) of this Article.

Article 31

The Supervisory Board shall work and decide on matters within its competence at the meetings.

A meeting of the Supervisory Board can be held if a majority of the members are present.

The meeting may be held in writing, by telephone or electronically, and a Supervisory Board member may also vote in absentia, in writing, in accordance with the Rules of Procedure.

In addition to members, meetings of the Supervisory Board may be attended by the Managing Director, whereas other persons may only attend by invitation.

The decisions of the Supervisory Board shall be taken by a majority vote of all members.

At the first meeting upon the appointment, the Supervisory Board shall adopt the Rules of Procedure, regulating in more detail the manner of preparing, convening and holding a meeting of the Supervisory Board.

A special professional office shall provide for professional and technical affairs for the Supervisory Board's work, in accordance with the by-law or document on internal organization and classification of jobs.

Article 32

The Supervisory Board shall adopt: decisions, instructions, guidelines, recommendations, conclusions and other documents, in accordance with the law.

The Managing Director is the proposer of by-laws or documents adopted by the Supervisory Board.

The Rules of Procedure of the Supervisory Board may determine that other bodies of the Public Enterprise can be proposers of some by-laws or documents as well, except for the by-laws or documents on the issues related to creation of business policy and work and development plans and programs, adoption of the report on business operations, appointment of executive directors, i.e. by-laws or documents related to the organization of the Public Enterprise, or organization within the Group, as well as other by-laws or documents for the execution of which the expressed responsibility of the Managing Director is stipulated by the law.

Article 33

The president and members of the Supervisory Board shall be entitled to remuneration for their work in the Supervisory Board.

The amount of remuneration shall be determined by the Founder, pursuant to the reports on implementing the annual operations program of the Public Enterprise.

Executive Board

Article 34

The Executive Board consists of executive directors appointed by the Supervisory Board on the proposal of the Managing Director.

The Managing Director is the president of the Executive Board.

Article 35

In the Public Enterprise, seven executive directors shall be appointed, typically for:

- 1) technical issues of electricity generation and coal mining ;
- 2) the issues of trade and supply of electricity;

- 3) financial issues and risk management;
- 4) legal matters and corporate affairs;
- 5) technical matters of electricity distribution and distribution system management;
- 6) issues of strategy, investment planning and development;
- 7) issues of human resource management.

The term of office of an executive director, i.e. of the Executive Board shall be four years, and upon expiration of the term to which he/she is appointed, the executive director may be reappointed.

The term of office of the executive director shall terminate upon the expiry of the period for which he/she is appointed, by resignation and dismissal.

The executive director shall submit his/her resignation to the Supervisory Board through the Managing Director.

Article 36

A person can be appointed as an executive director provided that, in addition to the conditions prescribed by the Law, the person also meets the requirement with regard to work experience of at least five years, of which minimum three years in the energy and mining sector, or in managerial positions.

Article 37

The scope and activities of the executive director shall be more closely regulated by the by-law or document on internal organization and classification of jobs in the Public Enterprise.

Article 38

Executive directors implement the decisions of the Supervisory Board, the Executive Board and the Managing Director.

An executive director may be designated as a representative of the Public Enterprise.

Article 39

The executive director, within the area of work for which he/she is responsible, is authorized and required to:

- 1) organize and manage work process in the Public Enterprise and coordinate work process in the activities for which he/she is responsible, in the subsidiaries;
- 2) control the implementation of development plans and annual operations programs of the Public Enterprise and its subsidiaries ;
- 3) gives necessary instructions and orders, guidelines and explanations for a unique conduct in implementing the development plans and annual operations programs of the Public Enterprise and its subsidiaries;
- 4) establish professional teams, working groups and other bodies for preparing, processing or elaborating specific issues;
- 5) perform other duties in accordance with the law, the Articles of Incorporation, these Articles of Association, and the document on organization and classification of jobs of the Public Enterprise, as well as the documents of the Managing Director and Executive Board.

Article 40

Executive directors may be entitled to incentive when the Public Enterprise operates with positive business results, in accordance with the Law and the Founder's by-law or document specifying the requirements and criteria for determining the amount of financial incentive and the Founder's by-law or document on payment of financial incentive.

Article 41

At its meetings, the Executive Board shall perform the following:

- 1) coordinate the elements and basic data for drafting the proposals of business strategy and business objectives, long-term and medium-term work and development plans and annual operations programs of the Public Enterprise and subsidiaries, based on the reports of executive directors within the scope of work for which they are responsible;
- 2) establish the methodology for designing and monitoring the execution of business strategy and business objectives, long-term and medium-term work and development plans and annual operating programs of the Public Enterprise and subsidiaries;
- 3) determine the measures for implementing business strategy and business objectives, long-term and medium-term work and development plans and annual operations programs of the Public Enterprise and subsidiaries, and monitor the implementation of these plans;
- 4) establish the formation criteria for transfer prices of electricity and coal for thermal power plants and determine such transfer prices as prices for accounting the effects of transactions between the Public Enterprise and subsidiaries, as well as among the subsidiaries;
- 5) establish the policies and requirements for preparing the annual plan for electric power portfolio of the Public Enterprise, purchase and sale of electricity in the electricity market, and methodology for forming the prices of electricity for sale on the market, determine quarterly and monthly plans for implementing the electric power portfolio plan of the Public Enterprise;
- 6) coordinate the elements and basic data for preparing a report on the level of implementation of the annual operations program, based on the reports of executive directors within the scope of work for which they are responsible;
- 7) coordinate the elements and basic data for preparing the report on business operations within the financial reports, based on the reports of executive directors within the scope of work for which they are responsible, including the preparation of a proposal for distribution of profits and loss coverage,
- 8) coordinate the elements and basic data based on proposals of the executive directors within the area of work for which they are responsible, in the preparation procedure for accounting policies and risk management policies, and provide technical assistance to the Audit Commission in the process of adopting the proposals of accounting policies and risk management policies;
- 9) coordinate the elements and basic data based on the proposals of the executive directors within the area of work for which they are responsible, in the process of preparing the by-laws or documents governing the establishment of accounting system and internal control;
- 10) coordinate the elements and basic data for preparing by-laws or documents in conducting the establishment procedure and status change of subsidiaries and in establishment of other legal entities;

- 11) adopt procurement plans and public procurement plans of the Public Enterprise in accordance with the annual operations program of the Public Enterprise, and adopt the plans for temporary financing of urgent procurements and public procurements in case the Founder's consent to the annual operations program of the Public Enterprise has not been obtained and the Program has not been adopted within the time frame prescribed by the law;
- 12) decide on acquisition, alienation and encumbrance of immovable property, creation of security on the assets of the Public Enterprise, providing surety and guarantee to the amount less than the amount to be the subject of decision-making by the Supervisory Board;
- 13) decide on the indebtedness of the Public Enterprise in an amount less than the amount determined by the annual operations program to be the subject of decision-making by the Supervisory Board;
- 14) decide on granting loans to subsidiary companies and other corporations in which the Public Enterprise is a member, and taking loans from subsidiaries;
- 15) appoint the representatives of the Public Enterprise in bodies of companies and other legal entities in which the Public Enterprise participates in equity, or provide representatives on other grounds;
- 16) decide on membership and representation of the Public Enterprise in domestic and international organizations and associations;
- 17) perform other duties and decide on other issues, in accordance with the law, these Articles of Association and the decisions of the Supervisory Board.

Article 42

The Managing Director shall be the president of the Executive Board, propose the meeting agenda and preside the meeting.

In the absence of the Managing Director, the Executive Board meeting shall be convened by the executive director authorized by the Managing Director.

Article 43

A meeting of the Executive Board may be held if a majority of executive directors are present, also including the Managing Director in the total number of members.

At the meeting, the Executive Board takes decisions and adopts other by-laws or documents within its competence by a majority of the total votes.

If the votes in the decision-making process are equally divided, the vote of the Managing Director shall be decisive.

Article 44

At its meeting, the Executive Board may adopt the Rules of Procedure that more closely regulate the manner of preparing, convening and holding the meetings of the Executive Board.

Managing Director

Article 45

The Managing Director of the Public Enterprise is appointed by the Founder for a period of four years, on the basis of a public vacancy announcement, in accordance with the Law.

Article 46

A person can be appointed as the Managing Director of the Public Enterprise provided that, in addition to the conditions prescribed by the Law, the person also meets the requirement with regard to work experience of at least five years, of which minimum three years in the energy sector, or in managerial positions.

Article 47

The Managing Director:

- 1) represents the Public Enterprise;
- 2) organizes and manages the work of the Public Enterprise;
- 3) manages business operations of the Public Enterprise;
- 4) is responsible for the legality of operation of the Public Enterprise;
- 5) proposes long-term and medium-term work and development plans and annual operations program of the Public Enterprise, and takes measures for their implementation;
- 6) proposes business strategy and business objectives;
- 7) proposes financial statements and consolidated financial statements of the Public Enterprise;
- 8) proposes appointment and dismissal of executive directors ;
- 9) gives mandatory instructions, orders and guidelines for a unique conduct within the Group in the implementation of regulations, by-laws and other documents, which ensure and regulate coordinated business operations and work of the Public Enterprise and its subsidiaries,
- 10) gives mandatory instructions, orders and guidelines for coordinating the work of executive directors and the directors of subsidiary companies;
- 11) adopts the by-law or document on the basics of organizing and coordinating the activities within the Group, determines the internal organization of the Public Enterprise, and adopts the by-law on the classification of jobs of the Public Enterprise;
- 12) executes the decisions of the Supervisory Board;
- 13) decides on individual rights, obligations and responsibilities of employees in the Public Enterprise in compliance with the law and the collective agreement;
- 14) establishes professional teams, working groups and other bodies for preparing, processing or elaborating specific issues;
- 15) adopts by-laws of the Public Enterprise, as well as the by-laws or documents referred to in Article 16 of these Articles of Association, with the consent of the Supervisory Board;
- 16) decides on matters that are not within the competence of the Supervisory Board according to the law, Articles of Incorporation and these Articles of Association, or which do not come within the competence of the Executive Board pursuant to the Articles of Association;
- 17) performs other duties in accordance with the Law, Articles of Incorporation and these Articles of Association.

The Managing Director performs the tasks of the subsidiary assembly, unless otherwise provided by the Articles of Incorporation and these Articles of Association and incorporation document of the subsidiary.

Article 48

The Managing Director may be entitled to incentive when the Public Enterprise operates with positive business results, in accordance with the Law and the Founder's by-law or document specifying the requirements and criteria for determining the amount of financial incentive and the Founder's by-law or document on payment of financial incentive.

Article 49

The term of office of the Managing Director shall terminate upon expiry of the period for which he/she is appointed, by resignation and dismissal.

The Managing Director shall submit his/her resignation to the Founder, in writing.

If the Managing Director resigns, he/she shall continue to perform his/her duties until the appointment of acting director, but no longer than 30 days.

The Managing Director may withdraw his/her resignation before the Founder receives it.

The Managing Director may be dismissed on the grounds and in the manner prescribed by Law.

Article 50

The Public Enterprise may have an acting director appointed by the Founder in the cases and under the conditions prescribed by Law.

The acting director has all the rights, duties and powers of the Managing Director.

8 Work and Development Planning

Article 51

The Public Enterprise shall adopt work and development plans and programs determining the development goals, methods and measures for their implementation, and other conditions ensuring performance and improvement of energy and other activities, as well as creation of conditions for safe, reliable and sustainable supply of electricity to customers, in accordance with the Energy Development Strategy and the Strategy implementation programs, passed by the competent national authorities according to the law.

In the procedure of preparation and adoption of work and development plans and operations programs of the subsidiaries, coordination of these plans within the Group is provided, observing the obligations in performing the activities of electricity distribution and distribution system management, as well as other energy related activities in accordance with the law.

Article 52

The Public Enterprise adopts long-term and medium-term work and development plans, annual operations programs and consolidated annual operations programs.

Long-term development plans are adopted for a period of at least 10 years and include projections of long-term development objectives for the Group.

Medium-term development plans are made for a period of at least 5 years and include projects to be implemented, along with projections of required financial resources and measures and activities for implementing these development projects for the Group, for the period for which such plan is adopted.

The items of the Medium-Term Development Plan related to the development of electricity distribution system shall be harmonized with the development plans for electricity distribution system prepared in accordance with the law governing the energy sector.

Long-term and medium-term development plans are aligned with the Energy Development Strategy and the Strategy implementation programs.

Article 53

Work and development plans shall include the information on:

- 1) Forecasts of market and market share, and planned production and sale of electricity to end customers in the Republic of Serbia and other customers in the domestic and regional electricity market;
- 2) necessary investments in the development, along with sources and methods of providing the funds required for the development, and construction schedule, primarily for the facilities for electricity generation and coal production, information systems and networks for electronic communication;
- 3) financial resources for investment and current maintenance of the facilities, primarily the facilities for electricity generation and coal production, information systems and networks for electronic communication, along with the sources, investment schedule and the method of providing funds;
- 4) projections of necessary investments in the development, and framework funding for management, maintenance and development of electricity distribution system in accordance with the needs of development set out in the distribution system development plans, passed by the subsidiary established for electricity distribution and distribution system management, in accordance with the law regulating the energy sector;
- 5) activities taken to improve and rationalize organization and operations, and directions of corporate development;
- 6) activities, measures and funds for improving energy efficiency, providing and implementing environmental protection measures and eliminating harmful effects of environmental pollution, including reducing the emissions of harmful gases;
- 7) projection of balance sheet positions, pricing policy, wages and employment;
- 8) other elements of the work and development.

Article 54

The annual operations program of the Public Enterprise shall be prepared in accordance with the long-term and medium-term work and development plans of the Public Enterprise.

The annual operations program of the Public Enterprise includes in particular:

- 1) annual plan for the electric power portfolio of the Public Enterprise, which particularly includes the plans for electricity generation and purchase from subsidiaries and the plans for electricity sales to subsidiaries and customers, the plan for trade of electricity in the function of optimizing the electric power portfolio, as well as the plan for trade of electricity on the domestic and regional electricity market; overhaul plans for the facilities for electricity generation and coal production, plans for providing ancillary services to the transmission system operator, measures to balance the electric power portfolio, quantities of electricity planned for trading in the domestic and regional markets, as well as a method of providing transmission capacities for electricity trade in regional market, and also coal and other energy generating products required for electricity generation, funding plan for wholesale electricity trade etc.;
- 2) funds for implementing strategic projects and investments of the Public Enterprise in the completion of these projects;
- 3) funds required for the development of the Public Enterprise during the fiscal year, with the activities planned in the field of scientific research work and development of studies and designs, as well as the development of investment-technical and spatial planning documentation, testing of equipment and geological surveys;
- 4) activities, measures and funds to carry out the programs intended to improve and rationalize organization and operations of the Public Enterprise and corporate development;
- 5) funds for public and other procurements of the Public Enterprise during the fiscal year, along with the sources of funds, purpose by groups of procurements and the schedule of using the funds;
- 6) planned sources of revenues and expense items of the Public Enterprise, by purpose, along with the income and expenditure plan of the Public Enterprise;
- 7) planned method of distribution of profits, i.e. planned method of covering the losses of the Public Enterprise;
- 8) elements for a comprehensive understanding of pricing policy for goods and services, wages and employment in the Public Enterprise, or its subsidiaries, determined in accordance with the policy of projected growth of wages in the public sector, in accordance with the law;
- 9) criteria for using the funds for assistance, sports activities , advertising and entertainment;
- 10) criteria for determining remuneration for the work of the president and members of the Supervisory Board;
- 11) human resources management - employment policy, vocational training and health and safety at work, salaries and expenses of the employees in the Public Enterprise;
- 12) amounts for decision-making by the Supervisory Board on the matters referred to in Article 30, paragraph 1, item 11) and paragraph 2 items 11), 12) and 13), or by the Executive Board on the matters referred to in Article 41, item 12) and 13) of these Articles of Association;
- 13) consolidated annual program of the Group's operations, which includes in particular the following: electric power portfolio; balance for overburden and coal mining, for heat production, as well as plans for other products and services; implementation plan for the initial investment projects;

implementation plan for maintenance and subsequent investment projects; plans for scientific-research work and preparation of investment-technical and spatial planning documentation, testing of equipment and geological surveys; projections of necessary investments in the development and framework funding for management, maintenance and development of electricity distribution system during the fiscal year, in accordance with the distribution system development plans, passed by the subsidiary established for electricity distribution and distribution system management, in accordance with the law; activities, measures and funds to carry out the programs intended to improve and rationalize the organization and operations and corporate development; plan for improving energy efficiency, providing and implementing environmental protection measures and eliminating harmful effects of environmental pollution, including reducing the emissions of harmful gases; human resource management - employment policy, vocational training and health and safety at work, salaries and expenses of the employees; criteria for regulation of economic relations with anticipated transfer prices; plan for funds for public and other procurements in the course of fiscal year, along with the sources of funds, purpose by groups of procurements and the schedule of using the funds; plan for funds for electricity trade, planned method of the distribution of profits, i.e. planned method of covering the losses; consolidated plan for income statement, balance sheet and cash flow, etc.;

14) other elements as provided by the law, by the Articles of Incorporation and these Articles of Association.

Annual operations program shall be submitted to the Founder for approval no later than 1 December of the current year for the following year.

Article 55

The Public Enterprise monitors the implementation of annual operations program of the Public Enterprise and is required to submit reports on the level of implementation of the annual operations program, and other reports prescribed by the law, to the competent authorities within time frames and in the manner provided by the Law.

The provision of paragraph 1 of this Article shall also apply to subsidiaries in monitoring the implementation of the annual operations program of a subsidiary.

9 Management of the Subsidiaries

Article 56

The Public Enterprise manage its subsidiaries in accordance with the law, Articles of Incorporation, these Articles of Association and the incorporation documents of the subsidiaries in a manner that ensures uniform and coordinated action in order to achieve the interests of the Group.

The provisions of these Articles of Association, by-laws and other documents of the Public Enterprise, which are adopted in order to achieve the interests of the Group, within the meaning of paragraph 1 of this Article, shall be directly applicable in the subsidiaries.

In the management of a subsidiary company that conducts the activity of electricity distribution and distribution system management, the Public Enterprise ensures independence of that company in matters related to the distribution system management and development, for which this is required by the law.

Article 57

Some relations within the Group can be more closely regulated according to the law, these Articles of Association, incorporation document of the subsidiary and by-laws and other documents of the Public Enterprise.

Article 58

In the management of subsidiaries, the Public Enterprise provides conditions for smooth functioning of electricity generation and electricity and heat generation in a combined process, and coal mining and electricity supply, and coordinated development of energy facilities, in accordance with the law.

10 Distribution of Profits and Coverage of Losses;

Article 59

The profit of the Public Enterprise, after adopting financial statements for that fiscal year, may be allocated to cover the losses from the previous years, for the reserves if they are provided by a special law (statutory reserves) and other purposes envisaged by the annual operations program of the Public Enterprise for that fiscal year, in accordance with the law.

A part of the funds from profits is directed to the Founder and paid to the account specified for payment of public revenues.

If the annual financial report indicates that the Public Enterprise has operated at a loss, the Supervisory Board makes a decision on how to cover the loss.

The declared loss of the Public Enterprise can be covered from retained profit, special reserves that could be used to cover the losses, by new investments or by taking a decision on reducing the share capital of the Public Enterprise.

In addition to the methods specified in paragraph 4 of this Article, by a decision of the Supervisory Board, other methods to cover the loss of the Public Enterprise may be established as well, in accordance with the law.

The decision on how to cover the loss shall be passed by the Supervisory Board, with the consent of the Founder in accordance with the law, Articles of Incorporation and these Articles of Association.

11 Transparency in the Work of the Public Enterprise

Article 60

Transparency in the work of the Public Enterprise is ensured through regular reporting to the public on the annual operations program of the Public Enterprise and quarterly reports on implementing the annual operations program, and reporting to the public on other facts that may be relevant to it, and particularly on: the audited annual financial statements and the chartered auditor's opinion on these statements, the report of a special or extraordinary audits, the composition of the Supervisory Board, the name

of the Managing Director, organization of the Public Enterprise and method of communication of the Public Enterprise with the general public.

The Public Enterprise and its subsidiaries shall publish on their website: the adopted annual operations programs and quarterly reports on their implementation, audited annual financial statements, the chartered auditor's opinion on these statements, composition and contacts of the Supervisory Board and contact data of the Managing Director, i.e. director of the subsidiary, as well as other facts relevant to the general public.

Article 61

The Public Enterprise ensures the transparency in work and availability of information of public interest, which by law or special by-law or document is not considered confidential, to stakeholders having their business or other legal interest for that.

The Public Enterprise achieves the transparency in work by issuing permanent and occasional papers, journals, newsletters and other publications, as well as through the public media, by holding press conferences, making statements by authorized persons and by other forms of informing.

The Public Enterprise also provides transparency through disclosure of the data on its legal status and business operations on the website.

12 By-Laws of the Public Enterprise

Article 62

In the Public Enterprise, rulebooks, decisions, rules of procedures, instructions and other by-laws or documents are passed when required for the regulation of matters and relations in connection with the work and operations of the Public Enterprise and relations within the Group, pursuant to the law and these Articles of Association, for the purpose of exercising some rights and carrying out obligations and responsibilities by employees, as provided by the law.

By-laws and other documents of the Public Enterprise, as well as by-laws and other documents of subsidiaries must be in accordance with the Articles of Association of the Public Enterprise.

The by-laws and documents referred to in paragraph 1 of this Article, which govern uniform and coordinated action in order to achieve the interests of the Group shall be directly applicable in the subsidiaries to which they relate.

Amendments to the Articles of Association and other by-laws and documents are made in the manner and under the procedure prescribed for their adoption.

Article 63

In performing the activities within their competence, the Managing Director, executive directors and the Supervisory Board members, representatives and other persons in charge of special duties shall be required to act in accordance with these Articles of Association and shall be responsible according to the law.

The Articles of Association, by-laws of the Public Enterprise and all amendments thereto, shall be posted on the bulletin boards in the office buildings of the Public Enterprise and shall enter into force on the eighth day from the date of posting i.e. publication.

Notwithstanding the provisions of paragraph 1 of this Article, the Articles of Association or other by-law of the Public Enterprise, a shorter time period can be determined for entering into force than the period referred to in paragraph 1 of this Article, when there are justifiable reasons that must be stated in the explanation.

The Articles of Association, other by-laws and other documents of the Public Enterprise may be published on the website of the Public Enterprise or in any other suitable manner to allow easier access to these documents.

13 Trade Secret

Article 64

Information and documents that represent trade secrets and whose disclosure to unauthorized persons could harm the interests and business reputation of the Public Enterprise, the method of handling the information and documents representing trade secrets, as well as the method of communicating the information considered to be confidential, depending on the degree of confidentiality, shall be determined by a by-law or document of the Public Enterprise.

14 Transitional Provisions

Article 65

The Public Enterprise shall harmonize incorporation documents of the subsidiaries with the Law, the Articles of Incorporation and these Articles of Association within 15 days from the effective date of the Articles of Association.

The Supervisory Board will decide on harmonization of the incorporation documents referred to in paragraph 1 of this Article, on the Managing Director's proposal, with the consent of the Founder.

Until the incorporation documents of subsidiaries are harmonized within the meaning of paragraph 1 of this Article, the Managing Director shall have the powers provided in these by-laws or documents for the Supervisory Board of the Public Enterprise Electric Power Industry of Serbia, Belgrade, in the function of the assembly of the subsidiary.

Article 66

The by-laws of the Public Enterprise will be harmonized with these Articles of Association within 15 days from the effective date of the Articles of Association.

Article 67

The Executive Board will begin to work from the day following the appointment of the executive directors.

15 Final Provisions

Article 68

These Articles of Association are considered to be adopted after obtaining the Founder' consent, and shall enter into force on the date of their publication i.e. posting

on the bulletin board in the office buildings of the Public Enterprise Electric Power Industry of Serbia.

As of the date of entering into force of these Articles of Association the Articles of Association of the Public Enterprise Electric Power Industry of Serbia shall cease to be valid (PE EPS No. 2, dated 16 June 2005)

PE EPS
No. 557 / 5-14
Belgrade, 30 January 2014

PRESIDENT OF THE
SUPERVISORY BOARD
Prof. Aca Markovic PhD